96-WWW

REVIEW OF GAO PRELIMINARY STUDY OF PARITY

HEARING

BEFORE THE

SUBCOMMITTEE ON FAMILY FARMS, RURAL DEVELOPMENT, AND SPECIAL STUDIES

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

SEPTEMBER 18, 1980

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REVIEW OF GAO PRELIMINARY STUDY OF PARITY

THURSDAY, SEPTEMBER 18, 1980

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FAMILY FARMS,
RURAL DEVELOPMENT, AND SPECIAL STUDIES
OF THE COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1302, Longworth House Office Building, Hon. Richard Nolan (chairman of the subcommittee) presiding.

Present: Representatives Akaka, Harkin, Grassley, and Thomas.

Also present: Representative Richmond, a member of the full committee.

Staff present: Peggy L. Pecore, clerk; Berton Henningson, Stephen T. Adams, Bernard Brenner, and Steve McCoy.

OPENING REMARKS OF HON. FREDERICK W. RICHMOND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. RICHMOND [acting chairman]. Good morning, ladies and gentlemen. The subcommittee will come to order.

This is a hearing of the Family Farms, Rural Development, and Special Studies Subcommittee. It is a public hearing to review the General Accounting Office preliminary study of parity, which was requested by Congressman Nolan, the chairman of the subcommittee, and me some time ago.

The winter of 1977–78 brought severe economic difficulties to American agriculture. Portions of the farming industry reported cash flow problems that posed prospects of financial failure and bankruptcy.

The outlook was especially bleak in wheat-growing States, where prices had dropped sharply from highs of the 1973–75 period. Many wheat farmers, having made large credit commitments during the periods of high prices, found to their dismay that slackened demand and expanded output could so lower their incomes that they would threaten the economic viability of their farming operations. Their major demand was for 100 percent parity.

By 1979 several studies had been completed on the effect of 100 percent parity levels, yet there were still no answers and no solutions. Economists from every spectrum were asked to comment. As the debate on parity levels continued, it became increasingly clear that our current state of economic analysis left us with mutually exclusive alternatives.

Many economists tell us that fair prices for farmers will result in higher food prices for the consumer and increased inflation in the food sector. Still other economists tell us that keeping a lid on food prices will hurt farmers.

The majority of economists agree that raising support levels to parity levels would cause consumer food prices to skyrocket. They also note that, during the recent period of declining net farm income, consumer food prices rose and inflation continued at a high rate.

A number of economists claim that commodity prices have been adequate for most farmers, yet, since World War II, we have seen an exodus from the farm community at the rate of 2,000 farmers a week. This is not to say, that their assets will go out of production. Their assets will be bought by their more solvent neighbors and will be maintained in the farming community. This cannibalizing process has been going on in American agriculture at a rapid pace for 15 years.

Something is clearly wrong with an economic analysis that pits one segment of our society against another and at the same time provides no answers to our current economic dilemma. Something clearly is wrong with an economic analysis that endorses predatory economics and social dislocation in the agriculture sector.

We need a more accurate analysis, a new model. It is my hope that the discussions started today will enable us to begin to focus on a better way by which to deal with the tremendous changes that have taken place since parity was enacted.

Thank you.

It is my pleasure to turn the hearing over to our chairman, Mr. Nolan.

OPENING REMARKS OF HON. RICHARD NOLAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. NOLAN. Mr. Richmond, thank you for your help and cooperation in this effort, and thank you very much for your statement, but most of all thank you for the concern that you, as an urban Member of the Congress, have demonstrated toward small farmers and the rural people of this country.

It has been a great source of comfort to people in the rural areas of this country to know that there are people representing urban districts, like yourself, who are unselfish enough to care about their kinds of concerns. You have done a great deal to help broaden everyone's views and perspectives with regard to the kind of fruitful, cooperative relationship that could, and should, exist between urban and rural people.

I also want to welcome everyone else here this morning, particularly the people from the General Accounting Office. We welcome the report on parity.

Representative Richmond and I originally requested the report on February 27, 1979. We asked GAO to evaluate the concept of parity prices for agricultural commodities and the impact which parity level price supports would have on farmers, on the rural economy, on consumers, on the general economy, and on trade and development.

Completion of the report has taken a long time, and the report GAO is presenting to us today does not include the analytical study of parity which Representative Richmond and I requested. GAO found that it did not have the analytical capacity to adequately evaluate the broad-ranging implications of parity, because current techniques of economic analysis fail to consider important secondary impacts—on rural economies, on long range consumer food prices, et cetera—which higher price supports would have on the Nation's economy.

While disappointment undoubtedly will be expressed over the fact that GAO's report is not the definitive study of parity, I believe the report nevertheless breaks important ground for what it says about parity's effectiveness as a barometer of the economic well-being of agriculture and for its conclusion that current economic modeling techniques, such as those employed by the Congressional Budget Office and the Department of Agriculture, are also inadequate.

Although CBO and USDA have published extremely critical evaluations of parity, GAO concludes that there presently is no good framework for making such assessments, thus casting doubt upon the validity of the economic models used by CBO and USDA to derive their analysis.

I do not believe that I am revealing any secrets by stating that GAO's internal review process slowed completion of the draft report prepared by the Agency's Community and Economic Development Division. The process of reviewing the draft has forced GAO analysts to dig behind the seemingly impenetrable facade of macroeconomic modeling.

Economic analysis derived from macroeconomic modeling has acquired the status of gospel in the eyes of many policymakers, and any attempt to suggest that existing economic models are seriously deficient was bound to be controversial.

For many years I have believed that the so-called economic experts in Government, business, finance, and education are demonstrating their intellectual bankruptcy when they attempt to restore economic stability through monetary manipulation, which puts people through the wringer in order to rescue mismanaged financial institutions.

The economic and agricultural policies of the Carter administration and of the preceding Ford and Nixon administrations have failed. The befuddlement evident in official circles, in the White House, on the Federal Reserve Board, and among the Nation's major banks indicates that we must undertake a more rigorous assessment of our economic problems and the solutions required.

GAO's acknowledgement that no good economic model exists to provide reliable analyses of economic policy options, such as raising price support levels, leaves Congress in a vulnerable position, almost totally dependent upon the narrow analyses of CBO and USDA.

Over the past several years, I have repeatedly challenged the assumptions underlying the economic analyses presented by CBO and USDA. To provide Congress with a better capability for evaluating the economic analyses of others, on July 23, 1980, I intro-

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duced House Concurrent Resolution 386, which would establish a joint select committee on monetary and commodity policy.

The joint committee would study the causes of rising public and private debt, monetary inflation, and trade deficits, and after completing its investigation, it would report a bill proposing the necessary changes in our monetary and commodity policies in order to restore a prosperous economy.

Any assessment of a Nation's monetary policy would be seriously deficient without also considering the impact which the valuation of raw commodities has in an economic system. Unfortunately most economic observers ignore commodity valuation.

My resolution is designed to remedy this oversight. I am pleased to note that GAO's proposed conceptual framework for U.S. farm policy formulation ties commodity valuation into its assessment of agriculture's role in the economy.

I believe my proposed joint committee on monetary and commodity policy would assist Congress in fleshing out GAO's proposal for a new conceptual framework for economic analysis, and I am including a copy of House Concurrent Resolution 386 at the end of my testimony.

I wish to commend the staff of GAO's Community and Economic Development Division for tenaciously adhering to the conclusion that we need a new and broader conceptual framework for economic analysis.

The conventional wisdoms of yesterday no longer apply. If GAO is going to continue providing Congress with useful economic analyses, its reports must challenge old assumptions which no longer have any practical application.

As writer and economist Jeremy Rifkin has stated:

> * * * We look at the other industrial societies, and while some appear worse off and others slightly better off, all of them, socialist and capitalist alike, seem to be gripped by a common malaise. The same inexorable force of disintegration is eating away at us all.* * * When the whole world begins to break down and fall apart then we must look to the way the whole world has been organized, because that is where the problem lies.
>
> * * * In the next few years, some very basic concepts that we've long held sacred in our political and economic thinking are going to be radically changed. The process is likely to be thorough for the simple reason that the falsehoods we have so long entertained are now suspect even among those appointed as keepers of the faith.

GAO, one of the keepers of the faith, is another case in point of challenges being raised to old ways of thinking. Gentlemen, for that, we are grateful.

I will insert the copy of House Concurrent Resolution 386 into the record at this point, hearing no objection.

[House Concurrent Resolution 386 follows:]

96TH CONGRESS
2D SESSION

H. CON. RES. 386

To establish a Joint Select Committee on Monetary and Commodity Policy.

IN THE HOUSE OF REPRESENTATIVES

JULY 23, 1980

Mr. NOLAN (for himself and Mr. WEAVER) submitted the following concurrent resolution; which was referred to the Committee on Rules

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CONCURRENT RESOLUTION

To establish a Joint Select Committee on Monetary and Commodity Policy.

Resolved by the House of Representatives (the Senate concurring), That (a) there is hereby established a joint select committee to be known as the Joint Select Committee on Monetary and Commodity Policy (hereinafter in this resolution referred to as the "Joint Committee").

(b) The Joint Committee shall be composed of—

(1) Twenty-five Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives from—

(A) the Committee on Agriculture,

(B) the Committee on Banking, Finance and Urban Affairs,

(C) the Committee on Public Works and Transportation,

(D) the Committee on Small Business, and

(E) the Committee on Ways and Means, and

(2) Twelve Senators, to be appointed by the President pro tempore of the Senate from—

(A) the Committee on Agriculture, Nutrition, and Forestry,

(B) the Committee on Banking, Housing, and Urban Affairs, and

(C) the Committee on Finance.

(c)(1) Appointments to the Joint Committee shall be made in such a way so that—

(A) each of the political parties represented in the membership of the House of Representatives is represented among the Members of the House of Representatives on the Joint Committee in approximately the same proportion as such party is represented in the membership of the House of Representatives, and

(B) each of the political parties represented in the membership of the Senate is represented among the Senators on the Joint Committee in approximately the

same proportion as such party is represented in the membership of the Senate.

(2) One of the Members of the House of Representatives appointed under subsection (b) shall be designated by the Speaker of the House of Representatives as the co-chairperson from the House of Representatives, and one of the Senators appointed under such subsection shall be designated by the President pro tempore of the Senate as the co-chairperson from the Senate.

(d) Any vacancy occurring in the membership of the Joint Committee shall be filled in the manner in which the original appointment was made.

SEC. 2. (a)(1) The Joint Committee shall conduct a study in order to determine the causes of the growth in public and private debt, monetary inflation, and trade deficits, in the United States since 1945.

(2) In conducting such study, the Joint Committee shall investigate—

(A) the operations of the Federal Reserve Board;

(B) the influence which money market operations have on the economy;

(C) bank liquidity and its impact on the availability of credit;

(D) the impact of mandating the Federal Reserve System to set a low discount rate, not to exceed 0.5

per centum, to provide Federal Reserve credit exclusively for member banks to make available for the purpose of encouraging gains in productivity in agriculture and industry;

(E) an assessment of the gains and losses from devaluation of the dollar and from liquidation of the national debt;

(F) the impact which the influx of foreign currency has on bank liquidity, monetary policy, and investment;

(G) the impact which imports have on domestic production and processing;

(H) the impact which agricultural commodity prices have had on the volume and value of agricultural exports, on the trade deficit, and on the value of currency;

(I) the profitability of assets in industry and agriculture and its relationship to investment and ability to repay debt;

(J) the multiplier effect of income derived from the production and mining of raw materials;

(K) agricultural commodity price levels and their relationship to inflation and bank illiquidity;

(L) the role of capital turnover in the economy; and

(M) such other matters as may be relevant to the study.

(b) As soon as practicable, but in no event later than fifteen months after the date of the adoption of this resolution, the Joint Committee shall file with each House of Congress a report describing the results of its investigation under subsection (a).

(c)(1) As soon as practicable, but in no event later than twenty-four months after the date of the adoption of this resolution, the Joint Committee shall report to each House of Congress a bill which, based on the study of the Joint Committee under subsection (a), is directed at reducing the public and private debt, monetary inflation, and trade deficits, of the United States. Such bill shall not be referred to any other committee of the Senate or of the House of Representatives.

(2) Any difference or disagreement between the Senate and House of Representatives relating to such reported bill shall be referred to a conference committee comprised solely of members of the Joint Committee.

SEC. 3. For the purposes of this resolution, the Joint Committee may—

(1) hold such hearings, sit and act at such times and places, take such testimony, and receive such evidence,

(2) secure directly from any department, agency, or instrumentality of the United States, such information,

(3) require by subpoena the attendance of such witnesses, or the production of such books, papers, or documents,

(4) appoint and fix the compensation of such experts and clerical, stenographic, and other assistants, and

(5) make such rules respecting its organization or procedures, including rules for the establishment and operations of such subcommittees,

as the Joint Committee deems necessary to carry out its functions under this resolution. Either co-chairperson, or any member, of the Joint Committee may administer oaths to witnesses.

SEC. 4. For purposes of this resolution, the term "Member of the House of Representatives" means a Representative in, or a Delegate or Resident Commissioner to, the House of Representatives.

SEC. 5. The Joint Committee shall cease to exist as of the date on which the work of the Joint Committee, including that of the conference committee referred to in section 2(c)(2) of this resolution, is completed.

Mr. NOLAN. With that introduction, let me introduce our first witness, Mr. Henry Eschwege, Director of the Community and Economic Development Division of the General Accounting Office.

Mr. ESCHWEGE. Thank you, Mr. Chairman.

Mr. NOLAN. Forgive me. I rushed too quickly. Let me call upon the ranking Republican member of this subcommittee, Congressman Grassley from Iowa, for his opening statement.

OPENING REMARKS OF HON. CHARLES E. GRASSLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. GRASSLEY. Mr. Chairman, this hearing and the General Accounting Office study of the parity question are especially appropriate at this time when the disparity between the production costs of farmers and the prices they receive for their production is the widest it has been in years.

This has been a record year for U.S. farmers in many ways. This year the parity ratio dropped to its lowest level since 1933. Farm income this year may be 40 percent below the 1979 level, the lowest realized net farm income since 1934.

Dr. Hjort is giving us a new way to look at that, so that it comes out to only a 10- to 12-percent drop.

Also, this year farmers are saddled with payments on production loans they had to obtain at some of the highest interest rates in recent history.

This year the cost of farm production input has set new record increases, driven up by out-of-control inflation.

This committee has a great deal of concern for the family farm, both as a business and as a social institution. Inflation is the biggest enemy of the family farm today. It is doing more to ruin the business and destroy the institution than any other single factor.

Inflation is driving up production costs faster than the weather is driving up commodity prices. For instance, fertilizer costs are up nearly 40 percent over February 1979. Agricultural chemicals are up 25 percent. Fuel and energy are up nearly 70 percent. Machinery costs have gone up 20 percent. Interest costs are up 25 percent. Real estate taxes are up 8 percent. Farm family living costs are up 20 percent over February 1979. These are from USDA official figures.

Those few family farmers who are able to increase their incomes to keep up with inflation find their reward in increased personal income taxes.

At the same time that farm families are trying to find ways to cope with these rewards, this administration is finding ways to reward the people who have helped to bring about this state of affairs. Dr. Howard Hjort, USDA's Director of Economics, Policy Analysis, and Budget, and one of the chief architects of the administration's farm policies, is the recipient of a $20,000 Presidential rank award as the distinguished senior Executive Service employee.

One of his principal contributions, according to the White House, is that he has successfully made the shift in USDA policy from producer-oriented to consumer-oriented in policy and budgetary matters.

I do not know how others may view this, but to me it is a fascinating commentary on the priorities of this administration.

I hope the report to be presented to us today by the GAO will provide us all with some new insight on the need to assure agricultural producers in this country a fair and equitable return on their investment, labor, and management. This is the best way—the only way I know of—to provide consumers with any assurance of adequate supplies of food and fiber at reasonable prices.

This is the only true, consumer-oriented, agricultural policy, but it appears to be an elusive concept with this administration.

I want to express my appreciation to Chairman Nolan for holding these hearings and to the witnesses who are to appear this morning.

Thank you.

Mr. NOLAN. Thank you very much, Mr. Grassley.

Now, let us hear from Mr. Henry Eschwege. We welcome you and we ask that you introduce the people with you.

STATEMENT OF HENRY ESCHWEGE, DIRECTOR, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY BRIAN P. CROWLEY, SENIOR ASSOCIATE DIRECTOR, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION, GAO; AND EDWARD A. SCHAEFER, AGRICULTURAL ECONOMIST, GAO

Mr. ESCHWEGE. Yes; I will, Mr. Chairman. On my right is Brian Crowley, Senior Associate Director, of my division. On my left is Ed Schaefer, who is our Agricultural Economist and who has been working very closely with your people on this particular study.

I appreciate your patience, Mr. Chairman, in getting to this point today. As you know, we have had a very complex question posed to us. Our role has been to try and address it.

We feel that we can only be a stimulator or catalyst in this effort. We do not have the resources to do it all on our own, but I think that with your help we can get those who have the resources to look at this problem anew and find solutions to a difficult situation.

On September 26, 1978, we issued a study entitled, "Changing Character and Structure of American Agriculture: An Overview." Because that study only mentioned parity briefly, you asked us to evaluate the concept of parity to a greater degree and to identify the impacts that could be expected from parity level price supports for agricultural products, particularly the secondary impacts.

As you know, parity is essentially a calculation which measures the purchasing power of farm commodities today in relation to their purchasing power during the base period of 1910–14.

Our 1978 study questioned the ability of the farm sector to withstand supply-demand fluctuations in the face of three decades of farm concentration. This question of the agricultural sector's ability to withstand economic buffeting is a starting point in our discussion of parity, because the essence of U.S. farm policy since the 1930's has been to provide a certain level of economic security to the farm sector through programs, many of which were linked to parity.

The importance of the farm sector and its interrelationship with other sectors was recognized after World War I when farm prices plunged, farm incomes declined, and farmers cut back on purchases of all types of manufactured goods.

Farm equipment producers were particularly hard hit and the idea of strengthening the farm economy was first conceived and fostered by manufacturers who depended on farm purchases for their own livelihoods.

During the 1930's a parity formula was enacted by the Congress to improve farm income, so that the farm sector could buy goods and services from other sectors.

Today there are generally three parity measures—parity prices, parity income, and the parity ratio.

When farmers ask for 100 percent parity, they mean 100 percent of parity prices. When policymakers say that farm commodities buy only 60 percent of what they did in 1910 to 1914, they are usually referring to the parity ratio. When others say that farm incomes must be maintained at a parity level, they are probably talking about implementing support programs based on parity income.

It is apparent that parity, as it is used by different people, can refer to many different things depending on which element or spinoff of the original formula is being used. The essential ingredient of all of the parity terms is the same, however. That is, parity was expected to measure the economic well-being of the farm sector relative to other sectors.

One reason you have asked us to study parity is that the economic strength of the farm sector today is suspect. Farm concentration over three decades has had the beneficial impact of increased productivity and low consumer prices.

For example, according to the Bureau of Labor Statistics, the rate of increase of farm workers' productivity has averaged 75 percent more over the past 20 years than that of manufacturing workers. But too much concentration increases risks and reduces the ability of the farm system to adapt to changes.

At your request, we examined the parity concept and parity formula and assessed how well parity tracked the well-being of the farm sector.

We were not able to conclusively and holistically assess the impacts of parity level price supports on world trade and economic development, on the general economy, on the farm sector, on rural communities, and on consumers, because current evaluation techniques primarily measure short term economic impacts and do not consider secondary impacts, such as impacts on rural viability, long-term impacts on retail prices, soil conservation, et cetera. There is presently no good framework for evaluating the secondary impacts of policy options such as those which would raise or lower support prices.

We, therefore, decided to build on our earlier study of farm structure and develop a conceptual framework for formulating and evaluating policy alternatives on a broad range of factors. This was done by identifying farm problems and the underlying reasons for those problems.

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Our review consisted of interviewing agricultural and developmental economists and specialists, farmers, and various farm and community support groups. We also interviewed and obtained data from officials at USDA; the Agency for International Development, Department of State; the Bureau of the Census, Department of Commerce; the Internal Revenue Service; the Department of Labor; the Federal Reserve Board; and the Farm Credit Administration.

We reviewed simulation models and research literature, legislation, and related documents and publications concerning farm structural issues and agricultural price policy.

We did not review the mathematical details of the parity formulas or the appropriateness of the calculations to accurately reflect farmers' incomes and expenses.

Incidentally, an analysis of the dairy formula was done in our report "Alternatives to Reduce Dairy Surpluses," (CED-80-88) dated July 21, 1980.

We evaluated the concept of parity which was developed nearly 50 years ago. Parity is still a rallying point for many of today's farmers. Members of the Congress as well as many farmers and farm support groups rely on parity as a barometer of the farm sector's economic well-being.

Also, Government price support programs have been, and some still are, linked to parity although the support levels have never been 100 percent. Support levels have ranged from 60 to 90 percent.

Parity is useful as a barometer or indicator of economic well being. Changes in the parity ratio have tracked: (1) Structural changes, such as the fact that as the ratio has fallen, so have the number of farms; (2) Changes in farmer's margins on a per-unit basis; and, (3) Net farm income from marketing receipts.

Parity does not, however, adequately reflect the total farm sector well-being, total personal income of farm families, or increased farm assets and equities.

For many years the trends in U.S. agriculture have been toward greater technological advances, declining margins, declining numbers of farms, and increasingly larger farms.

Although the Nation has generally benefited from the trends recent studies have suggested that, if the trends continue unabated the secondary impacts may well be a loss of farm sector resiliency, a decline in rural viability, a cutback in efforts to conserve our fertile soil, and less competition. Parity by itself is not a good indicator of secondary impacts.

Your second question was: What would be the impacts of parity level price supports? As previously stated, the evaluation and analytical techniques currently available would not give us a total picture.

Not only do we not know what the secondary impacts would be we do not know whether there would be more or less farmers or whether consumers would be better or worse off in the long run. We do know that consumers would pay more for food in the short term and that net farm income would rise.

On the basis of our work we have concluded that the Congress and other policymakers need, in addition to parity, a broader

framework to use in developing, analyzing, and evaluating farm policies and programs.

We have developed—and it is shown in the table attached to my statement—a proposed framework which needs further development by USDA to flesh out the pertinent issues and subissues. The framework can, however, be a starting point for USDA and others in setting up a systematic methodology for considering the impact of various alternative policy options.

Some of these impacts are considered in setting policy today. Our proposal would assist in insuring that all major impacts are systematically considered in formulating and evaluating agricultural policy.

Our conceptual framework visualizes that economics, social soundness, environment, and politics play overlapping roles in the process of determining a desired farm policy.

That concludes my statement, Mr. Chairman. We will be glad to respond to any questions.

Mr. NOLAN. Again, thank you very much for the study, and in addition for your specific testimony here this morning.

Without objection, the materials you supplied as attachments to your testimony will be made a part of the record at this point.

[The attachments referred to above follow:]

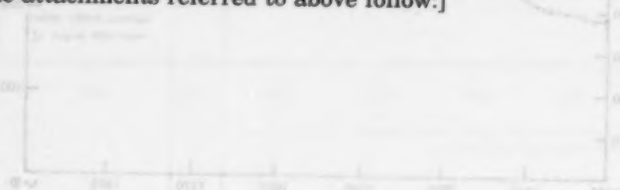
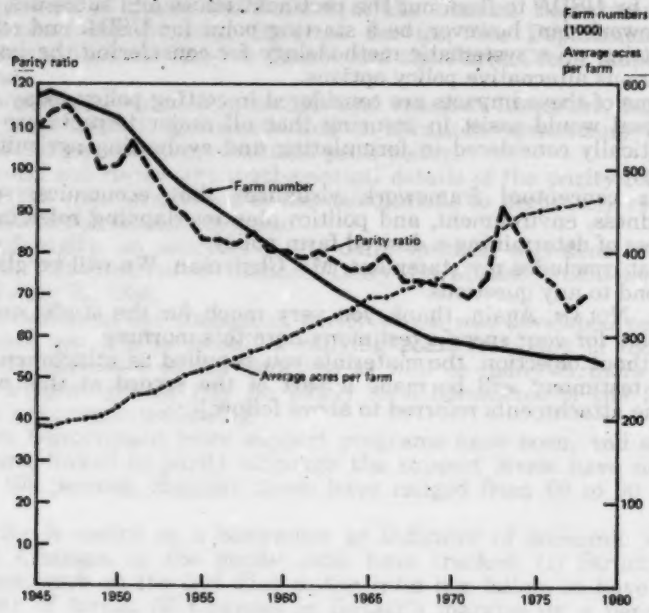


CHART 1

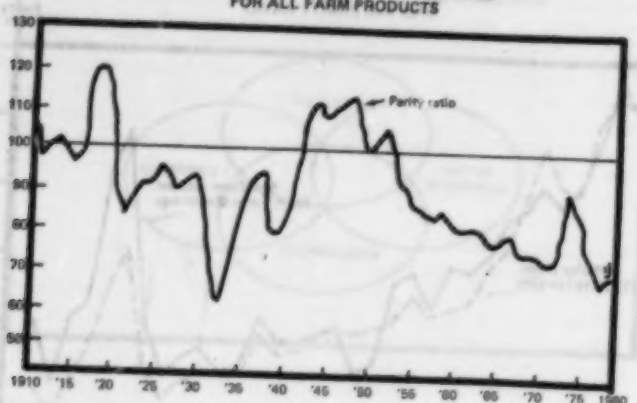
CHANGE IN TOTAL FARM NUMBERS, AVERAGE FARM SIZE AND THE PARITY RATIO



SOURCE: GAO ANALYSIS OF USDA AND US AGRICULTURAL CENSUS DATA

CHART 3

VARIATION IN THE ANNUAL PARITY RATIO
FOR ALL FARM PRODUCTS

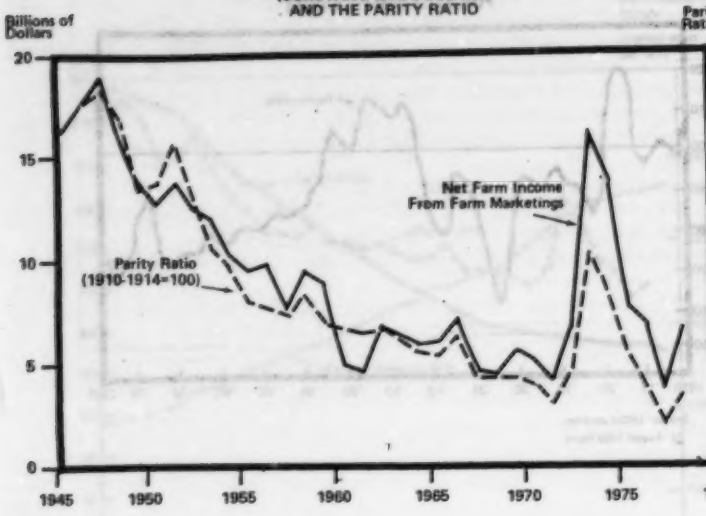


Source: USDA statistics

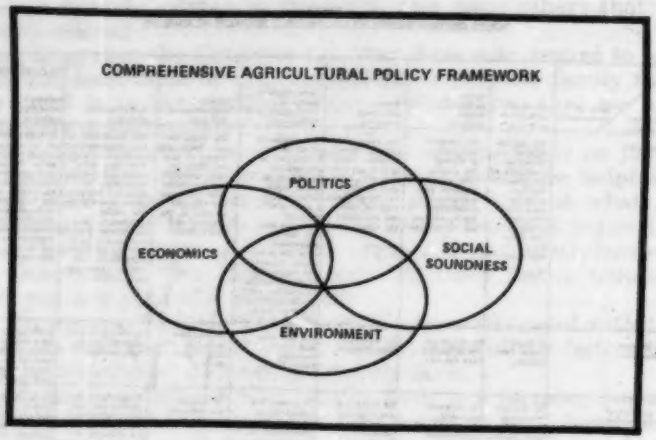
1/ Answer 1980 figure

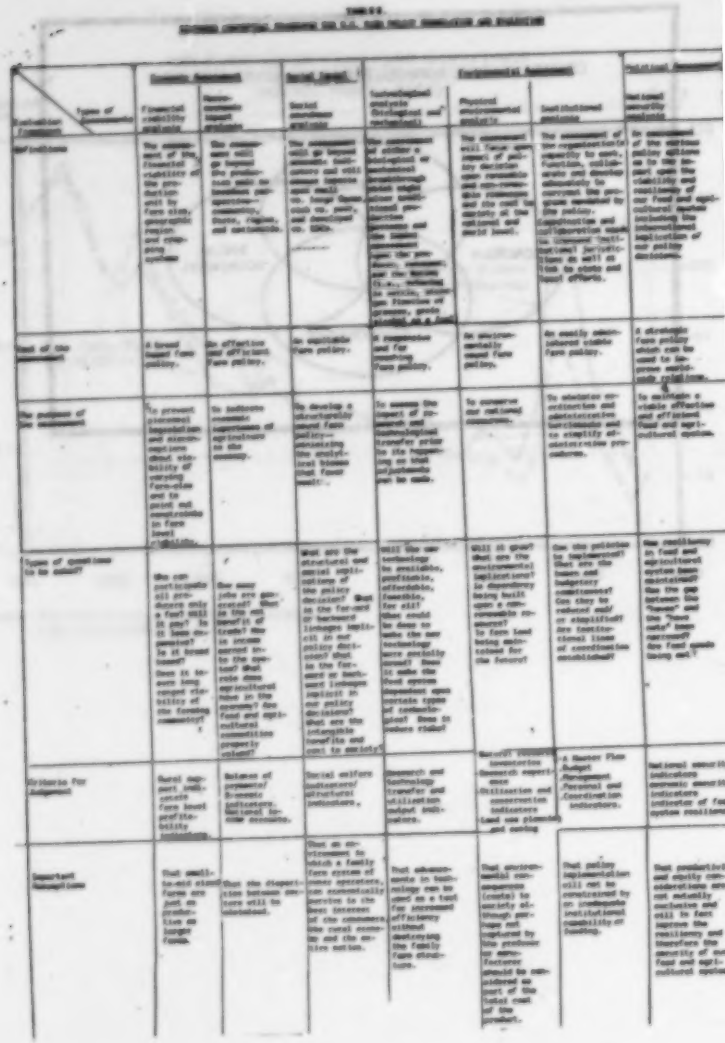
CHART 5

NET FARM INCOME FROM FARM MARKETINGS
(CONSTANT 1972 DOLLARS)
AND THE PARITY RATIO



SOURCE GAO ANALYSIS OF AGRICULTURAL STATISTICS
USDA, FARM INCOME SITUATION


COMPREHENSIVE AGRICULTURAL POLICY FRAMEWORK
POLITICS
ECONOMICS
SOCIAL SOUNDNESS
ENVIRONMENT



Mr. NOLAN. I have a number of questions that I would like to ask, some directly related to the study and some others that are indirectly related.

Everything that the Congress has ever done with regard to agriculture has been done in the name of preserving the family farm. If the proof is in the pudding, many would argue that we have been largely unsuccessful.

Do you, in your study on structure and in your study on parity, come up with any definition that you think would be helpful in defining what a family farm is? Many people look at what has happened and say, "We are preserving family farms. It is just that they are getting bigger and better organized and more business-like." Others say, "No, you are not. We have lost *x* number."

Have you any kind of a definition?

Mr. ESCHWEGE. Yes, Mr. Chairman. We have struggled with that problem. In our draft report we do suggest some of the factors that need to be considered in defining a family farm.

For instance, as we see it, a family farm is a farming business that is primarily owned, operated, and managed by a family unit which assumes all or most risks. In other words, this would not exclude a farm family that operated and managed rented land.

Another factor would be that a significant proportion of the labor, except of course during peak periods, would be provided by the family. This implies that farm size and technology would be scaled to fit a family unit.

A third factor would be that a significant proportion of the family's income is derived from the farm. I am not attempting to exclude farms where family members have some off-the-farm income.

There has been some debate about other factors; for instance, whether a corporation or a partnership form or structure can or should be able to fit under the family farm definition. In our earlier study we found that family farms did operate under a variety of organizational structures. Whether a farm was operated by a corporation, a partnership, or a sole proprietor was really not as important for policy formulation as were these other factors that I mentioned here.

Mr. NOLAN. Would it turn out that the size of a farm is really not so significant either, as the other factors you just outlined?

Mr. ESCHWEGE. That is a difficult question to answer. For discussion purposes—again, in our draft report—we did make three broad distinctions between farm classes. The top 2 percent of farms are those that market more than $200,000 in sales, based on 1974 census data. They constitute a sales volume of about 37 percent of the total farm sales and occupy 14 percent of the land. These, then, would be the largest in terms of sales volume.

There is a bottom part, a very large one, making up 52 percent of farms. These are often referred to as limited resource farmers. They only have 5 percent of the sales volume but control 23 percent of the land resources. These farms had under $10,000 in farm marketing receipts during the 1974 census year.

Finally, there is the residual, to which I am sure the Congress would want to pay some particular attention, making up 46 per-

cent of the total farms, which have 58 percent of the sales volum and 63 percent of the farmland.

The majority of the full time, family farms fall into the las category of 46 percent of the total farms.

This, at least, gives some idea of the categories we are dealing with.

Mr. NOLAN. In your judgment, what kind of a total structure should Government promote—a few large farms responsible for most of production or a lot of little farms responsible for most of the production?

Mr. ESCHWEGE. Obviously, this is a policy question with which the Congress will have to struggle. Opinions range from pure economic forces determining the relative size and structure, to promoting direct Government intervention to insure that factors other than economic ones are considered.

We think that the debate on structural issues should not focus solely on small versus large farm efficiency issues. The debate should focus more on what effects the continuing changes in the existing structure will have on such factors as farm sector resiliency, rural viability, efforts to conserve soil, and sector competition.

Again, in our draft we point out that few studies have been done identifying or quantifying impacts on these factors caused by agricultural policy. That is why it is difficult to determine the exact, most desirable agricultural structure that we should have.

Mr. NOLAN. As you know, the Presidential Commission on World Hunger, the Brandt Commission on World Hunger, the food and agriculture organization of the United Nations, the World Food Council, the World Food Conference, the World Conference on Agrarian Reform, and all of the so-called learned experts in the field of development as it relates to food and agriculture recommend for the developing world a system of small scale, relatively self-sufficient systems of agriculture as the ideal developmental model for the developing world.

If we are recommending that for the rest of the world, I wonder if those same findings and conclusions which are being reached by all of these learned groups would have much applicability for those of us in the United States, who are responsible for agricultural and food policy development.

Mr. ESCHWEGE. Mr. Schaefer will respond to that.

Mr. SCHAEFER. Mr. Chairman, that is a very broad question. There are, of course, no definitive answers. The size of farm becomes relevant primarily because as farms get larger and more specialized they tend to rely more heavily upon purchased inputs. Some of the major questions that are being addressed in developmental circles are: What can be done to minimize the farmers' current cost-price squeeze? And, can we continue to depend upon an agricultural sector throughout the world that is dependent upon nonrenewable resources?

They are finding throughout the world, that many smaller volume producers are more self-dependent. There are certain advantages to this. They can continue to produce if there are shocks in the system or if there are extreme increases in costs of production.

In the United States, we have moved to a system wherein we have a lot of people dependent on the agricultural sector who are not actually farmers themselves. This does not mean that we should not continue to support, with a variety of measures, a lot of the smaller farms that are self-sufficient and have what we call in our report a resiliency factor.

They are able to produce during difficult economic times by supplying a lot of their own inputs, like their own family labor and some of their own plant nutrient requirements. The Department of Agriculture has recently done a study on organic farming. Many of the old myths about organic farming and about the advantages of self-sufficiency are being questioned now.

Smaller volume farmers are a very important segment of our economy and one from which the rural sector can benefit.

Mr. NOLAN. Let me ask you a question. How much economic security should Government provide for farmers?

Mr. ESCHWEGE. Again, that depends upon the desired agricultural structure. How quickly we want to achieve it would be a major determinant of how much economic security, if any, should be provided to farmers.

Our draft report discusses a number of basic approaches that the Government could take. If there is to be no Government intervention in the agricultural sector, then obviously Government support of agriculture should be near zero. But if the present farm structure is to be preserved, we would need Government programs targeted to specific areas.

Mr. NOLAN. What is preferable? We find our urban friends of American agriculture, who for the most part, I think, tend to be sincere, telling us: "We would like to help, because we realize the cost-price squeeze the farmers are in."

However, there does not seem to be much interest here in Congress or in the Nation's Capital in placing any limitations of a mandatory nature on rising costs, such as on oil or wages and prices. Those costs keep rising and the squeeze keeps getting tighter.

They say:

> We would like to help, but if you raise the price supports, that will raise the price of food that our consumers pay. They are already paying too much for everything, so we cannot help you that way. We feel we should do it through some kind of an income maintenance system.

Then, when it comes time to provide the income through an income maintenance system, they say, "Wow, we cannot do that. We have to balance the budget."

The farmer, with all of these wonderful friends he has here in Congress, keeps getting stuck in that ever tighter and increasingly difficult cost-price squeeze.

Do you have any illuminating testimony here that could show us how to put the concern and the desire together with a method and a technique that is economically sound and politically feasible?

Mr. ESCHWEGE. Mr. Chairman, if I understand correctly, I think the question being asked concerns the choices we might have between price supports as opposed to income—

Mr. NOLAN. It seems to me there are three. One is to get the costs under control. That might be one way of widening the gap—

or the other ones. Do we go with price supports, or do we go with income maintenance? Which would be the most economically sound?

I guess we have to resolve the question of what is politically feasible.

As a kid, I always thought that public policy was dictated by the public need and sound policy development process, but if I have learned anything in the 6 years that I have been here, I have learned that that is not true. Nevertheless, I am always interested in knowing what does make sound economic policy.

Mr. ESCHWEGE. Between price supports and income maintenance, if we had to choose, my personal opinion would be that we would choose price supports over income maintenance.

The primary difference between the two concepts, as you know, is that price supports guarantee the farmer neither a specific return on labor and investment nor a base income level. In other words, if an appropriate margin is considered in setting the price level, it is then up to the farmer to combine the various farming techniques, cropping systems, and technology, to make his profit.

Under income maintenance programs, there are really no built-in incentives to produce efficiently.

Having said that, we do have for all citizens in need certain maintenance programs. If that is needed, I think it ought to be provided from the other programs, rather than having a farm program be in effect what you might call an antipoverty program. I am not sure that the farmer would want it that way either. He is in business.

The reason he is being helped is because he is in a very unusual business, which is affected by weather and economic factors which do not always work out according to the theories and textbooks that we have read in school.

As for cost, that is of course a more difficult problem. Did you want to say something on that, Mr. Schaefer?

Mr. SCHAEFER. There are a few techniques and methods that are being applied at both the Federal and State levels in order to reduce farmers' costs. Some of these are in conjunction, or could work in conjunction, with an overall price support program.

Things that are being done at the State level include farmland preservation. One of the underlying goals is to try to increase the farmers' cash flow by lowering his actual cash costs.

Today a new entry farmer may pay a high price for land and thus be in a severe financial bind especially in the early years. Some State programs would allow the farmer to sell off the development rights, which could be the difference between the farm land value and the market value. That would reduce the amount of money that the farmer has to pay out to service his debt, thus significantly improving his cash flow while at the same time preserving the land in farming.

Other types of programs that could be devised might be similar to, say, a national defense loan, wherein a new entry farmer would come in, and because he is in a very tight cost-price squeeze situation, he could receive money, perhaps linked to his costs of production and cash needs through a Federal or State program. He could

later pay back that loan when his equities are higher and when he is not in quite as tight a financial bind.

These are all different ideas. There are a lot of other directions that could be investigated. We think that questions like this could be answered once we sit down and try to get into the actual costs of production by region and by commodity system. We think that some of the answers could be flushed out in a broader analytical framework.

Mr. NOLAN. Thank you.

Getting back to what Henry Eschwege said a minute or two ago about the choice of the two systems. A lot of people have believed that guaranteed price supports or guaranteed prices of any sort guarantee a profit for farmers. I guess, what you are saying essentially is that that is not necessarily true at all. It may guarantee him a price, but the production methods and techniques and the efficiency with which he applies them will determine whether or not there is any profit.

Mr. ESCHWEGE. That is correct.

Mr. NOLAN. That is, assuming the support level or the guaranteed price is sufficient to make that possible.

Let me ask you another question. If price supports are raised, the question is always raised that those who own their own land and have lower production costs will enjoy substantial windfall profits.

I guess my first question is this. In your judgment, is that true? My second question is: If true, what could be done about it?

Mr. ESCHWEGE. Obviously, those who own their own land and have lower production costs are at an advantage, but there is a question as to whether these higher gains should be termed windfall profits or return on the farmers' equities.

Many economists feel that higher price support levels will immediately result in higher land values, unless some limitations or constraints are placed on them. If that is true, another question would seem to be: Without higher farm margins, how will new entry farmers or land renters become farm owners?

If the price of land is going up, where will they get the cash to buy it? Of course, there are Federal programs that are supposed——

Mr. NOLAN. Excuse me for a moment. What percentage of farmers do own their own land free and clear now? Do you know? Are we talking about a lot of people?

Mr. SCHAFER. We do not know exactly what percentage of farmers own their own land. There are a few land ownership studies going on right now over at the USDA and also at the White House. We hope to have better answers to these questions soon.

Mr. ESCHWEGE. We can check around and see if we can find some data on that.

Mr. NOLAN. Can you give a guesstimate at all? Would you say that it is a small or a large percentage who own their own land free and clear?

Just offhand from my constituency service work, I do not seem to know very many at all who own their own land free and clear, but maybe I am mistaken. Maybe I am just hearing from those who have financial problems.

Mr. SCHAEFER. I think that the overall leverage is quite low in agriculture, primarily because of inflated land values. If you look at land values today and see the amount that is borrowed against the farmer's assets, I think he only has something like 17 percent leverage.

This varies considerably by size of farm. The larger farms are more highly leveraged. The typical farm, I think, has about 17 percent leverage.

Mr. ESCHWEGE. We might be able to provide something on that before the record closes, Mr. Chairman.

[Material submitted follows:]

HOW MANY FARMERS OWN THEIR LAND FREE AND CLEAR

According to USDA's statistics, the percentage of farm real estate transfers involving debt financing has increased from only 44 percent in 1944 to 91 percent in 1980. During the same period, the debt-to-purchase ratio of credit financed farmland transfers rose from 58 percent to an estimated 78 percent.

According to the 1974 Census of Agriculture, 62 percent of the farm owner/operators did not have real estate debt. These farmers controlled 36 percent of the farm land. Of the Nation's largest farms (those 2 percent of the farms which marketed over $200,000 in 1974 and had nearly 37 percent of the total agricultural sales), about 41 percent were free of debt. On the other hand, those farms which marketed under $10,000 (accounting for over 52 percent of the farms and 5 percent of the total sales), 71 percent were free of debt.

Although these averages do not seem to be high levels of indebtedness, it should be kept in mind that the average age of a farmer is over 50 years and it therefore can be assumed that the financial picture of a new entry farmer it considerably less favorable.

Mr. ESCHWEGE. The point is that, yes, there are some inequities in any kind of system like this. There are Government programs and, as Mr. Schaefer pointed out in response to an earlier question, maybe we need to have some new types of programs to take care of the financing of agricultural land for those who first come into farming.

Mr. NOLAN. I have just one last question. Would you transmit an opinion on the manner in which USDA computes net farm income—that is, their old system or the existing system, and the proposed new system as you understand the way it has been proposed?

Mr. CROWLEY. The manner in which the USDA computes this does not really give us that much heartburn. It is really a question of what it tells us and whether or not it is misleading.

Much of the USDA reported net farm income is not in the form of cash income. There is a large amount in the form of nonmonetary income—value of rentals of their property, and of food consumption in the home.

For example, of the $31 billion reported net farm income in 1979, $10.6 billion was in the form of nonmonetary income.

Farmers have substantially less cash income than one would probably assume from the USDA reported figures.

We understand, however, that USDA is now about to start publishing some monthly statistics, which would better flesh this out.

Mr. NOLAN. On the surface, it would appear that perhaps their new system would take into consideration even more noncash income. At least as I understand it, under the existing formula farm income has dropped substantially more than it would appear to have dropped under the newly proposed system.

Mr. CROWLEY. Mr. Chairman, I saw the press release on the new system that came out last month. We really do not know what that means yet.

As I said, the monthly statistics will supposedly come out this month. I have not seen them yet, so we really do not have an opinion on that yet. We would rather wait and see.

Mr. NOLAN. Gentlemen, thank you very very much. I for one—and I think there are a great many others who hope the day will come when public policy and power are derived from knowledge. I hope that.

I, in my judgment, think that the General Accounting Office has been singularly one of the best sources of nonprejudiced and objective research analysis and knowledge on which to base public policy.

You gentlemen, in particular, I think have done a wonderful job. The General Accounting Office in general, I think, does a wonderful job.

I, for one, want to express my gratitude. Although I will no longer be serving in the Congress after this term, I have some things to which I can look back with real frustration and some that I can look upon with great delight. One of the latter is the General Accounting Office.

I have very warm and good feelings about it. The service and the contribution that you have made to the process of developing public policy, here in this Congress and in this Nation, is second to none. I commend you for it.

Mr. ECKWURZ. Thank you very much, Mr. Chairman. We will convey what you have said to the Comptroller General.

Incidentally, he will also be leaving the Government, as you know, next March. He will be very glad to hear your kind comments.

Mr. NOLAN. It is a very very sincere and heartfelt expression. Please convey it to him for me.

Before you leave, I do have one more question. This study has not been released for public consumption. When do you plan to make it available for the public?

Mr. ECKWURZ. We still need to get some formal comments from the Department of Agriculture, and I am sure they will be prompt with their reply. We do have to give them some time. We then have the internal processing. We hope within 4 to 6 weeks to get the report in final form.

Mr. NOLAN. I was going to request immediate publication, giving a deadline of October 1, 1980, before the Congress recesses. I gather from what you are saying that that is——

Mr. ECKWURZ. That would be pretty rough in terms of getting the Department to comment on it, but maybe we can discuss it further with your staff and arrive at some mutually agreeable timeframe for it. Of course, our statement is available to anyone now.

Mr. NOLAN. All right. We will work something out.

Mr. ECKWURZ. Thank you, sir.

Mr. NOLAN. Thank you very much, gentlemen. We appreciate your testimony.

Our next witness is Mr. J. B. Penn, who is a Deputy Administrator for Economics, Statistics, and Cooperatives Service in the U.S. Department of Agriculture.

Mr. Penn, as I understand it, considering the nature of the hearing, you do not have any prepared testimony, but you are prepared to give us a kind of general response.

Mr. PENN. Yes.

STATEMENT OF J. B. PENN, DEPUTY ADMINISTRATOR FOR ECONOMICS, STATISTICS, AND COOPERATIVES SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. PENN. We received the GAO draft report late last Friday afternoon. A couple of people read through it over the weekend.

On Monday, these members of our staff met with the GAO staff gave them the benefit of our comments, but they were largely technical comments, on points where we had disagreements on interpretation of statistics or other general impressions.

Mr. NOLAN. Do you want to share some of those with us?

Mr. PENN. One would have to go through a whole list of the various sections of the report. In general, we found that there were several useful things in the report, but we also have some difficulties with various other parts of it.

Mr. NOLAN. With what parts do you have some difficulties of interpretation?

Mr. PENN. For instance, the framework which is proposed. At this point, until we have a chance to study it further and to look what it might mean, we do not think it is very well described in the publication. We would like to see some more elaboration of the proposed framework.

There are other, more specific points, on which we had disagreements. I cannot recall what those were at this point.

Mr. NOLAN. Do you have any comments for us on the newly proposed system for computing net farm income? Was that developed in your office?

Mr. PENN. It was. I would welcome the opportunity to comment on it.

There are few things that I have seen in my time in Government that are more subject to misinterpretation than farm income.

The whole farm income question has become terribly confused. I think the confusion perhaps stems from the statements of Mr. Howard Hjort, who was mentioned by Mr. Grassley earlier, at a press briefing.

For years we have calculated farm income in the same way, with the exact same accounting concepts. As most people have come to realize, net farm income, one number, for a sector of the economy as large and as diverse as agriculture, is not a very meaningful indicator of the economic well-being of that sector.

Therefore, we have attempted to devise a new set of accounts. Those accounts have been under construction for almost 2 years. There have been no empirical estimates whatsoever made available yet from those accounts.

The confusion stems from Mr. Hjort's use of a "cash income concept." He was simply saying the same thing that the gentleman from GAO said, namely, that there are a large number of noncash

imputations in the present income concept, and that if we want to get a notion of the cash flow of farmers, we should remove those imputations. That can be done quite easily from the present accounts. You simply subtract the imputations and you can show how cash receipts or cash expenses have changed from 1979 to 1980 using the same concepts that we have reported all along.

There has been no change in the definitions whatsoever.

Mr. NOLAN. When do you expect to have your first computations under this system?

Mr. PENN. We hope to publish the new set of accounts at the end of this month.

Mr. NOLAN. Perhaps we will have you back at a later time. There is a lot of interest by a lot of the members, not just in this subcommittee, but in the full committee. They would like to ask some questions.

Mr. PENN. We would certainly like to come back.

Mr. NOLAN. Very good.

Let me ask you a couple of other questions about the trend toward fewer and larger farms and the consumer impact. This past year or two, the USDA completed a series of hearings around the country on the structure of American agriculture. Maybe they are not complete, but, at least according to the Secretary, you have had an analysis underway.

Have you found that there is any relationship between low farm income and the trend toward fewer and larger farms?

Mr. PENN. First, the main thing that needs to be realized—as I indicated earlier—is the very wide diversity in agriculture—crop producers and livestock producers, farms of all types, sizes, and locations in this country.

It is not meaningful at all to talk about farmers in general. You have to talk about wheat farmers or corn farmers. You have to talk about midwestern farmers or southeastern farmers.

We have tried to look at this diversity, relying on the rather limited available data, largely data from the Census of Agriculture.

If you disaggregate the statistics on farms, by their major characteristics, you find some very large farms with a very high equity level, and some very large farms that have a very low equity level. Some farms are completely owned, some are high cost, some low cost. You find all of this diversity.

The important thing is to sort this out and identify what the problems are of specific groups of farmers. Today, there are few common problems that span the full diversity of the farm sector.

Mr. NOLAN. In your analysis, do you conclude as others have, that there is an ever increasing trend toward larger scale farms, regardless of whether they are growing asparagus or feeding hogs?

Mr. PENN. That has generally been true, yes.

Mr. NOLAN. Did you find that there is any relationship between that and our—I will not say, low farm income, which happens to be my belief. Is there any relationship between that and our pricing system?

Mr. PENN. There are a number of factors that are responsible. They relate to the commodity programs. They relate to technological developments that have come about through publicly funded research and development. They relate to the tax provisions. They

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relate to the simple desire of people to grow larger and to earn larger incomes, incomes that are closer to those in the nonfarm sector.

There are numerous reasons. It is simply impossible without being more specific to sort out the relative causes.

Mr. NOLAN. Would you have concluded that public policy has contributed toward that trend toward fewer and larger?

Mr. PENN. Yes.

Mr. NOLAN. Have the consumers benefited from the trend toward fewer and larger farms?

Mr. PENN. Yes.

Mr. NOLAN. How have they benefited?

Mr. PENN. If you look at the development of the agricultural sector in a historical context, it is easy to see what has transpired. Along about the turn of the century, we were still largely a rural Nation. But, technological developments began in agriculture.

The technological developments enabled the farmers producing food and fiber to produce far more than was required by domestic and foreign markets at prices that were acceptable—either politically acceptable or that would allow farmers to earn incomes that were comparable to the nonfarm economy.

As you moved through time, there were more and more technological developments coming from the Federal and State agricultural experimental stations. These innovations were quickly adopted. They further increased the productivity of agriculture. Many farmers had left agriculture, but fewer and fewer farmers could still produce more than the markets, both domestic and foreign, required.

We had this very long period of very low prices as a consequence. Consumers were due ultimate beneficiaries, having to spend a declining proporation of disposable income on food. The outmigration from agriculture was very, very large. But, it has slowed pretty considerably now. And, we now have most of the readily available cropland in production.

This suggests we have probably passed the point of chronically low farm prices and chronically low farm incomes. But, we are more dependent on foreign markets. And, as a result, we are likely to have more of the conditions that we saw in the 1970's, very unstable, erratic conditions.

Mr. NOLAN. You said that we are likely to see more unstable, erratic conditions?

Mr. PENN. Yes.

Mr. NOLAN. Is that in the best interest of farming and consumers?

Mr. PENN. I think that this potential economic instability is something that will have to receive greater attention by the Congress and the executive branch. I think the policy questions of the future will more likely relate to the instability in international commodity markets and its transmission to domestic commodity markets, and the impacts that much more variable prices have on farm incomes, food prices, and inflation.

Mr. NOLAN. As I understand it, each American farmer produces significantly more food than is produced by their counterparts around the world. The number of man-hours required per unit

production is considerably less here than in the rest of the world. Is that correct?

Mr. PENN. I think that is generally true.

Mr. NOLAN. I think that is generally what we tout, when we talk about American agricultural superiority.

Mr. PENN. I think that is a fact. I do not know whether one wants to brag about it or not.

Mr. NOLAN. We generally brag about our superiority. At least, the politicians do. Maybe the analysts do not.

How do we rank with the rest of the world—and I think this has a bearing on consumers—as far as the energy consumed per unit of production here in this country as compared with the rest of the world is concerned?

Mr. PENN. I do not know specific figures, but I think that it is very clear that we have a highly energy intensive agriculture. We use not only motor fuels and lubricants, but petroleum-based fertilizers and pesticides. A large proportion of the annual production inputs are energy intensive.

I think this is much more the case here than in other parts of the world. It reflects the substitution of capital in the form of machines, fertilizers, and other inputs for labor that I mentioned earlier. Most of the other agricultural systems around the world are probably more labor intensive than capital intensive.

Mr. NOLAN. I have heard Secretary Bergland say that we have the most energy efficient system in the world. I just wondered if you had specific figures that he may have used to come to that conclusion.

How does American agriculture compare when you talk about the amount of production that is the result of a unit of production? I mean, how many hundreds of pounds of milk do we get from a cow, or how many bushels of wheat do we get from a comparable acre of farmland in this country as compared to, say, Western Europe?

Mr. PENN. When you measure productivity in that way, the amount of output from a given set of inputs, I think that we are very productive. I think our productivity per cow is very high relative to other countries. I think our yields of the major crops are very high relative to other countries.

Mr. NOLAN. I am sorry to get off the beaten track a little bit, but I would presume that the amount of capitalization required for a unit of production in this country would probably be considerably greater than in other parts of the world.

Mr. PENN. That is true. I would expect it to be much, much greater.

Mr. NOLAN. Have you done any analyses to try to determine what the long-range implications of these factors are for consumers? It would seem to me that during an era of low interest rates and abundantly cheap energy, perhaps a high technology system might be advantageous, but when you enter into an era of increasingly more scarce and more expensive energy and increasingly higher interest rates required for the capitalization of the farming systems, that to continue to promote large-scale systems that are highly energy inefficient and that have high capitalization requirements might be to create some real hardships for farmers in terms

of costs and for consumers ultimately in terms of what they have to pay.

Perhaps the trend toward fewer and larger, which I think you said a minute ago has been in the consumers' best interest, may not be in the consumers' best interest at some future point. Is that possible?

Mr. PENN. Yes. I think that is quite true.

However, what I said earlier was that this consolidation of farms, this increasing size and smaller and smaller number, came about as farms grew to achieve whatever technical efficiency gains they could achieve.

I think that the size of the farms that now produce most of the food and fiber are well beyond the point of having achieved all of the technical economies of size that exist. I think that further consolidation will not result in greater social benefits, especially in terms of consumer food costs.

I think that in the future consumers likely face rising food costs. We now spend a very small proportion of personal disposable income on the average in this country for food. This could likely increase, if anything, in the future.

We also have to recognize that, of the consumer's food dollar, about 70 cents goes to sectors other than the farm production sector. Those other sectors are also having problems with rising energy costs, with slowed productivity growth, with rising labor costs, and other things. The consumer's food dollar thus is going to be influenced in the future by much more than just what happens in the farm production sector.

Mr. NOLAN. All right, Mr. Penn.

Do any of the other members have any questions?

Thank you very much for making yourself available here for questioning. I have a feeling that we will get you back here some time fairly soon to go into the net farm income thing in a little more depth.

Mr. PENN. We would like to do that. Thank you.

Mr. NOLAN. Our next witness is Vince Rossiter, Sr., who is chairman of the board of the Bank of Hartington of Hartington, Nebr., and vice president of the National Organization for Raw Materials.

Mr. Rossiter, we welcome you to the hearing this morning.

STATEMENT OF VINCE E. ROSSITER, SR., CHAIRMAN OF THE BOARD, BANK OF HARTINGTON, HARTINGTON, NEBR., VICE PRESIDENT, NATIONAL ORGANIZATION FOR RAW MATERIALS

Mr. ROSSITER. Congressman Nolan, it is a pleasure to be here.

Members of the subcommittee, you can understand how difficult it is to comment widely or very intelligently on a study which I have not seen or on the basis of the very limited testimony presented here this morning.

I know what the National Organization for Raw Materials contributed to the study. There is a trace of it in the report this morning, but I doubt that it will be reported very extensively in the final report. That is because of a very fundamental difference of opinion on the purpose of parity and its service to sectors other than the agricultural sector of the economy.

I will make a few preliminary remarks, and then I will let you ask me questions, if you want to.

Parity of farm prices will not prevent a national depression, unless parity prices and therefore the resulting income prevails in all of the other sectors of the economy as well.

Parity was enacted during the 1930's, largely on the insistence of George Peek and others who are less well known to "improve the farm income, so that the farm sector could buy goods and services from the other sectors of the United States," according to the testimony of the GAO this morning.

We call this providing a reciprocal market for goods and services in other sectors of the economy, for which the agricultural economy must have a comparable parity of income, so that it can exchange the product of an hour of labor in agriculture for approximately an hour of labor in industry.

This assures a relatively full production and full consumption of all of the goods and services produced in the United States annually, and it also produces other secondary benefits that accompany it, such as: approximately full employment; a stable dollar; ample transaction money as the production of the United States is processed through the banking system; a solvent financial system; reasonable and unimpaired economic growth in the United States, modest but steady; domestic social tranquility; a balanced Federal budget from an enlarged tax base; assurance of continuity of essential Government programs, that can be provided within a budget that is sound and solid; and last, but not least, it has an assurance of world peace, because we do not have to compete with our neighbors for markets that we can provide in our own country and they can provide in theirs at a fair market price.

Many other things that used to occur in a less structured economic circumstance, such as those that prevailed after the Civil War and until World War I, will accrue from parity of income.

The GAO report states that: "We do know that consumers would pay more for food in the short term and that farm net income will rise." Now, an earlier part of the report notes that: "Parity, as interpreted today, by itself is not a good indicator of the secondary impacts."

We readily admit that food prices will rise with an increase in farm prices to parity, but not beyond the means of the consumer now or at any time in past history to consume according to the needs that he has at a parity level.

During the period of 1942 to 1951, we had the Steagall Act, which statutorily supported farm prices at 90 percent of parity—that is, according to the terms of the act—but it effectively supported farm prices at 100 percent of parity on the average during the course of that period. It resulted in farmers receiving 6.81 cents out of every dollar of national income, which at that time totaled $13.49 billion annually on the average for that period.

Contrasting that with 1979, when the United States was enjoying a national income of $1.924 trillion, almost 10 times the income of the 1942 to 1951 period, realized net farm income equaled $32.1 billion, barely twice what had accrued to agriculture in the 1942 to 1951 period when we had 90 percent of parity protection. This is

only 0.167 cents out of every dollar of national income, as compared to 6.81 cents in the earlier period.

Had agriculture shared in 1979 according to the same proportion of the national income as it did from 1942 to 1951, net farm income would have been $131 billion, $98.9 billion more than it did get in 1979.

To a lot of people this is an incredible statement, but all that it says is that the consumer can afford to pay the same relative price out of his income for the same food and fiber, produced at a much higher cost to agriculture than it was back in those days, and still not be disadvantaged—that is, still be able to feed himself comfortably.

True, he might have to forgo some other things, that he was using that $98.9 billion for, such as the increased interest costs in 1979—to the tune of $104 billion—just because the rate went up.

The consumer was spending $30 billion in energy costs in 1979. He paid $134 billion more in 1979 than he paid in 1978, which would have balanced parity in agricultural production. The consumer paid it.

For years the economists have been telling us that the consumer cannot afford to pay the prices for food at retail that the farmers must have at a parity price level. Many tell us that if we insist that they can, and if they cannot afford it, they will not tolerate it because they are, after all, 96 percent of the voting public, and the farmers are only 4 percent. This is reasonable.

On the other hand, we are now in 1980. The interest rates have hit alltime high record levels in the history of the United States. The prime rate went to 20 percent. The rate in our bank went from 9½ to 17 percent. It is back down to 14 now. We have frozen into the economy in the United States an interest rate that is almost double what it was 2 years ago.

As a consequence, the growing public and private debt, which expanded last year at an estimated rate of $500 to $600 billion, and which now totals something like $5.4 trillion, is going to come into the economy at a 2 percent higher interest rate in 1981 than it did in 1979. This means that the consumer will be privileged to pay another $260 billion of interest more than he paid in 1978. Plus, it is generally conceded, the cost of energy will increase another $30 billion this year.

This makes the consumers' costs $190 billion in 1980, as an estimate, over what it was in 1979. Add the $134 billion that he paid in 1979 over 1978, and the consumers' costs for interest and energy in the United States today is $324 billion more than it was in 1978.

This is the equivalent of the retail value of all the food and fiber consumed in the United States by the total population. The consumer is paying it again, but he is not paying it for food and he is not paying it to the farmer.

That is where parity comes into the picture. The debt that we have incurred in the last 28 years, which has largely been used to substitute for the earned income at the raw material level, now amounts to $5.4 trillion—an unprecedented figure, an incredible figure.

If you consider paying this debt off as it comes due in the next 4 or 5 years, obviously there is no way, with a $2 trillion national income, to sustain the economy and pay the debt.

But, consider this. Interest on this debt at what would be considered a reasonable rate now of 10 percent, if we decided to pay the debt off in an orderly fashion in 100 years, would amount to $31.4 trillion. Add that to the $5.4 billion. However, that is if we paid monthly installments. If we decided to pay it annually, that is, from year to year, then the interest costs would be $48.4 trillion.

I know that these are incredible figures. They are astronomical. Most people just lose sight of what I am talking about.

What I am talking about is an annual payment in an orderly fashion for 100 years of the public and private debt that exists today, plus interest at 10 percent, which would cost this Nation $524 billion a year out of today's national income of slightly over $2 trillion.

That $5.4 trillion public and private debt is a mortgage, a claim against future production in oncoming years. Stretch it out as far as you want to try to make it rational. It becomes irrational. It becomes an impossible load of debt, an incredible load that has never existed before in the United States, that has been brought about by 28 years of misguided and misapplied farm policy.

Had the farmers, in this 18-year period, enjoyed the 6.81 cents that the parity period from 1942 to 1952 says he should enjoy for a solvent economy, and that the consumer could have paid, his realized net farm income during that 28-year period would be close to $1 trillion more than he did receive.

It is difficult, I know, for people to relate realized net farm income or to relate the cost of raw farm materials at the farmer's gate to the quantity of money that we have in the banking system in the United States, but in that same 28-year period the loan-to-deposit ratio in commercial banks in the United States has increased from 17.4 cents out of a dollar in 1945 a period of super liquidity in the commercial banking system in the United States, a period in which the banks were literally suffering from under parity prices, because the interest rate on treasury bills, for example, was less than 1 percent per annum.

From that point until the end of 1979, this loan ratio has gone to 83.4 cents out of a dollar. Add the investments to that, and at the end of 1978 the banking system in the United States had loaned and invested 104.5 percent of deposits.

The only other time when this was exceeded was in 1920, when it was 105.4 percent of deposits, and the Federal Reserve System pulled the carpet out from under the American economy by destroying farm prices, which led up to the depression of 1930.

At this point, in September 1979, the ratio hit an all time new high of 111.57 percent of deposits. Never before had it been this high. The Federal Reserve System and the Government moved to adjust and control the situation. They reduced it to 108 or 109 percent the following month.

The next month, it started rising again, until March 1980, when the Government again moved to adjust this thing. At that point, it raised the interest rates to unprecedented levels to force the pri-

vate enterprise system out of the credit market to stop inflation. It stopped the Nation instead.

We now have circumstances in the economy of the United States that are reflected in the commercial banking system of the United States, because we have two-thirds of all of the liquid resources of the total financial system. Plus, we reflect more accurately the circumstances in any given community in the United States than any other sector.

Right now, we are again approaching—after the second adjustment and after the process of forcing every bank in the United States to raise their interest rates to prevent people from borrowing money—the all time high level. In other words, we have not corrected anything, because we have not brought one penny of additional profit or income into the economy.

I know the proposals are rife to cut taxes, but all that cutting taxes under these circumstances would do would be to increase the public debt, and the public debt is largely due to the problems that we have today of inflation, of illiquidity in the banking system.

Gentlemen, I do not know how I can stress more graphically the problems that have been created in the United States as the result of low raw material prices in every sector, but particularly in the farm sector which produces roughly 70 percent of all the raw materials in the Nation.

I have prepared a more lengthy dissertation on this subject, which I have made available to the committee. In it I have two or three little items which I would like to bring to your attention, if I am permitted the time, Mr. Chairman. Do I have time to go on?

Mr. NOLAN. By all means, please do.

In fact, I would like to ask unanimous consent that the entire text of your statement appear in the record.

[The prepared statement of Mr. Rossiter appears at the conclusion of the hearing.]

Mr. ROSSITER. Incidentally, the Steagall Act was a product of the Banking and Currency Committee and was created, not necessarily to support farm prices per se, but to stabilize the dollar under circumstances that they knew would prevail of serious stress during World War II.

It performed its function admirably. As the record shows, at the end of the war the economy was solvent. The dollar was stable. There was very little inflation. You could buy a tractor next year for approximately what it would cost you this year. You could buy land or real estate next year for approximately what it would cost this year.

The system had never had as much money in it available to loan to people, and still there was no inflation of farm prices or land, for example. There was no general inflation in the overall economy. We had a stable dollar. That is what parity did for the entire economy.

It made people conscious of the fact that the dollar had a valid store of value and would be worth approximately as much next year as it was last year, and there was no pressure or hiding in gold, or land, or whatever.

Now, the Steagall Act, I understand, is still on the lawbooks and could be reimplemented with the stroke of a pen by the President

of the United States—or with the authorization of the President of the United States by the Secretary of Agriculture.

The necessity of accepting parity, in my opinion, is very concise and simple. I say in my prepared statement that we must as a nation accept the need for parity of prices and income, not only in the farm sector, but in all sectors of the economy and attempt to achieve it by the best market-oriented methods available to us under Government supervision.

It is impossible for 1,900,000 individual farmsteads, that up to now have been fragmented—as Mr. Penn explained you have to do in order to explain it and relate it to the rest of the economy. He said there is no common problem in agriculture, meaning that different sized farms and different areas have different problems from other sized farms and other areas, but I disagree. There is one common problem in agriculture. That is that they have been underpaid, grossly underpaid, in relation to the other sectors of the economy for 28 long years, as a matter of public policy implemented by Federal law.

I suggest that we must accept the need for parity prices in all of the sectors of the economy and attempt to achieve it by the best market-oriented methods under Government supervision.

I continue to say, for my friends who object to having their Government intervene in a situation like this, that if this violates someone's concept of free enterprise, then it is because his concept fails to recognize the overriding obligation that this Nation has to restore solvency to the economy and a stability to the American dollar, and to at this point rescue the U.S. economy and the private enterprise system from ultimate destruction, which is where we are headed now.

The secondary impacts intrigue me. I am talking about secondary impacts. I am talking about impacts on every business and industry in the United States that have been forced, because of underpayment in agriculture, to borrow more money every year to sustain themselves. This is a secondary effect.

The whole illiquidity situation in the banking system is a very major secondary effect, reflecting what has gone on in other sectors of the economy.

There are other secondary effects. If farm price increases do raise the price of groceries, then obviously the consumer is going to have to pay more. We contend that the consumer has always had the income to pay 6.81 cents, or the equivalent, of the national income dollar for food.

Regardless of how you break it down, we feel that the money has always been there. In doing this, in paying the farmer, he is providing a secondary market. He is providing a market for goods and services produced in the other areas of the economy.

The farmer cannot consume unless he has income and profits, and he can only consume as much as he earns in income and profits. When we limit his income and profits, we deprive the other sectors of the economy of a substantial market, not only for consumer goods—because there are other people who need clothing and so on—but for substantial amounts of producers' goods as well—farm machinery, chemicals, petroleum, and other things of this nature.

I say this. Right or wrong, the parity program is the only remaining and unused, although previously tried, avenue available to legitimately increase the earned income of the Nation, such that it will trickle up to benefit the entire economy and repeat this process year after year.

While the consumer will pay by diverting some of his income, which would be spent for recreation and other purposes, to the food level, the increased income at the farm level will provide, not an increase in income to this individual to pay for his increased cost of foods, but it will provide more employment. It will provide work for more people. It will reduce the unemployment roles. This is a secondary effect.

The multiplier effect of the improved growth farm income will restore and enhance the income level of every other sector in the economy and in the Nation, except the net interest income, which will decline dramatically as the profits increase and dependence on credit diminishes.

Savings will not be lost nor diminished in any way with a stabilized dollar, but they will most likely switch to more lucrative investments, such as the stock market and industry.

Mr. NOLAN. Mr. Rossiter, if you could, will you wait for just a minute? We have an important vote taking place in the other committee hearing room where the full Committee on Agriculture is meeting. I will recess to vote.

[Recess taken.]

Mr. NOLAN. I apologize for the recess. When we originally scheduled this hearing, there were no other meetings of the Committee on Agriculture. There was a lot of interest in this subject. Unfortunately, another meeting was scheduled of the full committee. That is one of the reasons why we have not had a little better attendance here today. They are marking up an important research bill in the other room. We do appreciate your cooperation.

Mr. ROSSITER. Mr. Chairman, I was discussing the secondary benefits of restoring liquidity to the commercial banking system, solvency to the American economy, and a relative income level to all sectors of the economy, all of which would assure total production and total consumption in the American economy without resorting to excessive debt. By excessive debt, I mean debt in excess of the annual savings that would accrue in any given year.

The only thing I have not discussed, but which you will have available to you, is an analysis of the problems of repaying the debt and of sustaining an economy that is in balance. It is difficult to see how we can do this, short of very highly structured Government programs which guaranty the economy full production, full consumption, full employment, and fair prices in all sectors.

To accomplish this, we must absolutely and irrevocably restore the raw material price levels in the agricultural sector and the other sectors of the economy.

There can be no equivocation in this, and to spend our time endlessly discussing this and that kind of farm operation and this and that part of the United States, operated in this size and that size by this individual and that individual—as long as we are going to discuss these things endlessly, we are not going to come down to the central problem of resolving the liquidity problem of the com-

mercial banking system which reflects a very severe, a very depression-inclined situation in the United States today, that exceeds any previous depression indicator that this Nation has had since we kept records.

I think I probably should close my testimony by suggesting that, you go back and look at the record of the banking committees before World War II—what was their logic? What was their reasoning? What was their justification for 90 percent of parity, which because of the nature of the marketplace, resulted in an average of 100 percent of parity, because the traders who trade in farm commodities are as greedy as bankers or anybody else. They do not wait until the price goes to 90 percent of parity before they start trading. They will trade at 92, or 95, or 97, depending. In some cases, they will trade at 105 or 110.

The fact is that if the farm economy and the raw material economy are entitled to a floor of 90 percent of parity, which when properly administered should achieve 100 percent of parity, then society is entitled to the protection of a ceiling of 110 percent of parity.

Within this 20-percent range, all of the market factors in a free enterprise economy and a private enterprise economy can function, but with limits of how low we will permit our income to go and how high we will permit our costs to rise.

With this kind of an economy, we can contribute not only to the future of the United States. We might even restore—over a substantial period of time now, with this tremendous debt that we have incurred by underpayment—a condition wherein the people of the United States and the world can look ahead to even greater things, though perhaps we will enjoy them in more moderation henceforth.

With this Mr. Chairman, I want to compliment the committee for initiating this study. It is extremely important. It is vital.

Nothing will go anywhere in this Government or in this Nation, unless this comes to fruition. As such, it is probably one of the most important things that has happened in Congress in a long time. I trust that you will pursue it until a case is made.

I thank you very much.

Mr. NOLAN. I thank you very much for your testimony. Let me say that your work and the work of the National Organization for Raw Materials, as I said earlier, has been one of the positive forces for good that I feel privileged to have been associated with in this and other hearings.

I am glad I had the opportunity to see what it stands for, what it represents, and what it purports to do. I want to urge you to continue your work in that organization.

Many of the things that you say and the conclusions you reach are obviously based on a pretty careful analysis of economic statistics. Is it correct or not correct that they are also based on what is commonly known as the New Wealth Theory of economics?

Mr. ROSSITER. Yes, I guess you could say that, Mr. Chairman.

Mr. NOLAN. The reason why I ask that is because it is an economic theory that has reasonably widespread support, I think, throughout the country by a lot of knowledgeable and learned, self-taught economists, but I really do not know of any academia

trained or educated economists who have ever even heard of it. I think that in itself is a statement about the deficiencies in our economic education system in this country—to have a theory or approach that is reasonably well defined; whose advocates have held high positions in public policy institutions over the years; which, when it is presented to modern-day economists, they have a hard time poking holes in it; but which is not even being mentioned in our universities.

Our great economic gurus, who are constantly providing economic counsel and advice on where we are going, have no knowledge of it either.

We are running a bit short of time. Would it be possible for you, in just a few short words, to give a very brief description of the essentials of that theory?

Mr. ROSSITER. The essentials of the theory are that, of all the economic transactions in the economy of the United States——

Mr. NOLAN. I presume that this would apply to any economy.

Mr. ROSSITER. That is right, any economy in the world. In fact, if we apply it to the world economy, we would eliminate what we call Third World countries and improve our own economy.

The basic theory is that raw material is the only thing that is produced annually that is really new, that did not exist the year before. It is obviously basically necessary to feed, clothe, and house the population, which is probably the most primary thing—that is, until we got away from the time when everyone was a farmer.

At that point and at the present point, when we have 97 percent of the people who are engaged in other occupations, and only 4 percent are farmers, it then becomes extremely essential to guard the added new wealth annually to provide the homes, the schools, the churches, the highways, and the things that a growing, emerging population needs to live, to function, and to produce, without extracting from the creation of previous years' wealth—old wealth, so to speak—that is already invested in someone else.

Obviously, the farm economy generates roughly $130 or $140 of marketing income annually, which is the value of the farm marketing system at the present price level.

Our economy is operating at almost a $2 trillion level right now, so the amount seems so insignificant that an unthinking person might say that we could eliminate it for all practical purposes, and that we would not miss it, except that without this raw material production to provide us with food and sustenance and to provide us with a base for production, which is going to employ all of the rest of us in industry, in service organizations—we begin to realize that we have a multiplier effect out of this new wealth.

Plus, we can use old wealth over and over again as it exchanges hands. The total addition to new wealth annually has to be the value of raw material production.

If this value is arbitrarily reduced below a 100-percent-of-parity level, it gradually depletes and diminishes the accumulation of savings. It creates a erosion of buildings and factories, which cannot be restored, replaced, or replenished. It does so many adverse things. It brings out all of the negative aspects of economics.

These adverse aspects are numerous, and we were experiencing many of them for the last 2 years. With it at 100 percent of parity,

we would have had an adequate income to sustain the economy at a moderate level without borrowing excessive funds, without reaching into old stores, and without the necessity of inflating the economy of the United States by creating hundreds of billions of dollars with expanded credit, which is diminishing the value of the dollar and destroying the economy.

That is the basis of it. It is not really very difficult to understand, but the economists will not accept it, because if they do accept it, then they will have to agree that parity is essential, or farm prices are essentially, to the sustenance of the remainder of the economy.

If they agree to that, then they cannot argue that the farm population can decline another million farm operations or farmsteads between now and the year 2000 and still have a viable economic operation.

The 1,800,000 that they project for the year 2000 are still going to have to earn $115 billion, or the net farm income equivalent that they should have earned in 1979 in order to sustain the economy.

Why divide it up among 1,800,000 farmers, when it has the capability of sustaining 2, 4, maybe 5 million farmers. The farms would be divided again in a prosperous climate wherein dad can split the half section and give half of it to each one of his boys to make two farmers where there was one before.

This is the only way in which we are going to restore viability to the family farm. We will have to make the farm economy unusually wealthy temporarily.

When I say we should have earned the $130 billion, it would have earned the average farmer last year $100,000 of net farm income.

Measure that by any other industry in the United States. With an adequate return on investment, with an adequate return on management, and with an adequate return on the labor on that farm, it was justified.

I run my bank on that basis, but my farm customers are going down the tubes, because they are underpaid. Their product is undervalued. The result is a much broader depressive effect on the United States and the world.

Thank you.

Mr. NOLAN. Mr. Harkin?

Mr. HARKIN. Thank you, Mr. Chairman.

I certainly enjoyed listening to you talk about this. It is certainly thought provoking.

However, it just seems to me, that with the kind of accumulated wealth that we have in a few large corporations and conglomerates in the United States right now, if you make the farm sector unduly wealthy for a short period of time, then you increase the net profits that come out of the new wealth.

With the expanded population that is growing as it is, and with basically no new land being added, with more and more demand on crops and intensive cropping on each acre of land, then if you increase the net profits, what you will do is to suck money out of the big corporations that will then come in and start buying up farmland.

On the one hand, I hear what you are saying and I understand. I would basically support higher farm net income, but it seems to me that that is not the only answer. What you will do is get Exxon, Mobil, Tenneco, and all of the other big companies coming in there and accumulating more land. They will buy it and will rent it out. They will buy it and hire people to run it, so that they can get those net profits.

It seems to me that you do not only have to address the problems of farmers, you have to address the problems of land accumulation and big corporations buying huge blocks of land. You have to address both problems.

Mr. ROSSITER. Mr. Harkin, I agree that industry will be sorely tempted to get the agricultural business once it becomes profitable, but you know as well as I do, that there have been a number of occasions over the past 15 or 20 years when large corporations have gotten into real estate and farming, and they have gotten out again, because it is unprofitable.

They can make money in other areas of the economy, more money with the same kind of investment and with a lot less trouble.

Now, granted that under these circumstances it will be more enticing.

Mr. HARKIN. Why is it that 2 years ago we had the Continental Illinois Bank & Trust Co. in Chicago, that wanted to set up a pension trust fund to buy land? Now we have the pension funds coming in wanting to buy farmland, because they see it as one heck of a good investment.

Mr. ROSSITER. That is not unless you get a 15- or 20-percent increase in the inflation factor annually, which is what low farm income has resulted in. There is a shortage of credit, higher interest rates, people running to land to protect themselves against the deflating dollar. As a consequence, people who are not necessarily farmers who do not want to be farmers, and who could care less about farming, are investing in land like they would the stock market, which is a horrible error.

Mr. HARKIN. Excuse me for interrupting, but it seems to me that they will invest in it on either one of two bases. It either beats inflation as a capital asset, or they get more of a return on it than they would investing in something else, which is your net profit.

Mr. ROSSITER. They will get a return, if they are in land, but if they are going to go into land, two things will happen with the fair price. The value of land is going to reduce to the value of the output of the farm. It is going to relate more closely to the equity returned.

Now, land is being valued on the basis of the 10- or 15-percent increase in value due to inflation, and many economists factor in the inflation factor as an income factor and say, "Here is a great investment."

However, I will guarantee you that land will come back down to more moderate levels that can be justified with parity farm prices.

Mr. HARKIN. Would you not agree that the price of land is always going to go up? It has to. There are more and more people, and there is no more land on the face of the Earth.

Mr. ROSSITER. It can only go as high as people can afford to pay for it with the income that they receive from it in the absence of inflation.

Mr. HARKIN. That is what I am saying. Who receives the income per acre off of any farm? You will have people with a lot of money coming in and wanting to buy it, and bidding up the price of the land.

Mr. ROSSITER. We propose to increase the income to a level which prevailed at a period of history in the United States which did not result in an increase in the price of land. Money was more available then than it is now.

Mr. HARKIN. Wait a minute. That was before the mechanization of agriculture. Now you have totally mechanized agriculture. You have the chemical industry.

Now corporations can go in and buy huge hunks of land, and it is not so labor intensive any more. You can buy these huge tractors and huge combines and farm 10,000 acres of land with five people. In 1920 you could not do that.

Mr. ROSSITER. All right, but at the same time, with the so-called technological improvements you have, you are including increasing amounts of capital expenditure in the operation which cannot be justified with the price of agricultural commodities at the present level and perhaps not even at 100 percent of parity.

Mr. HARKIN. At 100 percent of parity, you can buy combines and even get bigger, I would think. The tractors would get bigger. Hunks of land would get bigger. Farm unit size would get bigger.

Mr. ROSSITER. That is a perception that the average individual has, but that is not true, sir. If we had parity, the reverse would have happened. If we had had parity, we would not have lost 60 percent of our farmers.

Mr. HARKIN. Wait a minute. There are two different things we are talking about. It is something I said before. If you could turn back the hands of time and keep 100 percent of parity from 1920 on, we would be in better shape today than we are—much better shape in agriculture.

I cannot turn back the clock. I can only look ahead and say: Here is where we are right now. What are we going to do in the future?

I would like to see 100 percent of parity. I am just saying that it seems you have two factors—100 percent of parity, but also something called land aggrandizement, larger landholdings, and fewer and fewer farmers. I believe that if you do not address both of those equally, that if you just address one side of that equation, you will not solve the problem.

Mr. ROSSITER. I agree, sir. There may be a point at which we have to legislate against nonfarm corporations picking up our landed resources. I agree 100 percent, but that is a separate issue.

Regarding what you said, you cannot turn back the clock, but you can wind it up again. You can restore a level that prevailed, which previously gave us equity of income and also a solvent dollar under the stresses of war.

Mr. HARKIN. I would just submit that we cannot do it at this late date.

Mr. NOLAN. If I can just inject something that will hopefully be a little bit illuminating, historically 100 percent of parity prices have

not brought about an increased consolidation of farms or a diminution in the opportunity for more small farmers.

On the contrary, it has resulted in a greater division of farms and the creation of more opportunities for more people in small scale agriculture. In fact, most recently, when USDA did an analysis of the 100 percent of parity bill that was introduced and under consideration in the Congress, while the USDA opposed that bill, their analysis did conclude that it would result in more opportunities for more small farmers.

Therefore, in our recent history as well as in our past history there is evidence to indicate that 100 percent of parity does not bring about the kind of grabbing and consolidation that we are always kind of led to believe would occur.

In point of fact, there seems to be more grabbing and consolidation by either large scale farms or corporate farms during periods of lower prices, because those are the periods when the small scale operators, so to speak, are forced to liquidate. That is the time when there seem to be reasonably good bargains available.

They seem to be supported by a wide range of public policies which provide more financing for a big farmer to get bigger than for a young farmer to get started. There is more research for a large scale, highly mechanized system than for a small scale approach. There are tax benefits and all kinds of other shelters that somehow manage to turn an unprofitable farming operation into a profitable operation for the implement dealer, the banker, the lawyer, and the candlestick maker.

However, the poor bona fide farm operator out there is just going backward and liquidating.

This is a genuine problem that Mr. Harkin is addressing. There is a commonly held perception that good farm prices will provide additional inducements and encouragement for the rich, the wealthy, and the powerful to go and grab and buy more than what they are already holding, and that that in turn will force land prices to rise higher and higher, making it even more difficult for the small farmer to get started.

However, historically that does not seem to be the case.

Mr. HARKIN. If I may respond to that, historically, up until recent times, that may have been true, but I would submit that just within the last 10 years the opposite has been true. I think it can be demonstrated, because there have been some very drastic changes—for one thing, in population and in the demand for the production of foodstuffs in this country and throughout the world.

I think that is one thing that we tend to forget, namely, the increase in population. We do not feel it so much here in the United States, although a little bit perhaps. We certainly do not feel it in the rural areas.

However, in the last 12 years we have added as many people to the face of the Earth as it took from the beginning of time to reach the population of about 1860. It took that long to get the first billion people on the face of the Earth.

We have added another billion in just the last 12 years, yet the size of our tillable land in the world is not increasing that rapidly. In fact, in many areas it is decreasing because of shopping centers, and so on.

When you add a billion people, that puts a lot of strain on production.

I think the rules have changed appreciably. I think that that is why, now, if you get prices up without doing anything else, without adding any laws that would restrict corporate entry into agriculture, you would find two things: bigger farmers getting bigger and squeezing out the smaller ones, and the attraction of large amounts of money from pension funds, trust funds, and things like that.

Mr. NOLAN. Did you find that to be the case in Iowa during the 1973–74 high price period that we experienced?

Mr. HARKIN. I cannot speak authoritatively on that.

Mr. NOLAN. My experience was that more young people went into farming during that period than in any other period in my lifetime. That was a high price period.

It seemed to me that we had a lot of guys doing what you were saying—that is, dividing the farm up among a couple of sons. The kids were coming home from the cities all over the country to go into farming.

Mr. HARKIN. I do not remember that happening.

Mr. NOLAN. Since that time, they have been coming and begging and crying for help, because they got into something that cannot be sustained with the current price levels.

Mr. HARKIN. Iowa now has a law restricting the entry of certain entities, like Minnesota's law.

Mr. ROSSITER. Mr. Chairman, I might suggest that, following World War II, our bank made what we called GI farm loans. We started some 45 young farmers in business from scratch in 1947 with $4,000 total capital.

Today the comparable entry would be at least $50,000.

Most of those people were successful and have bought and paid for farms.

A farmer enjoying a full parity income has an option of selling to his neighbor's son or to Citicorp of New York. A farmer who is depressed and whose interest rates amount to more than he can make on a farm in any given year, who is going to have to sell his resources at auction or lose them to the creditors, such as the Federal Land Bank, does not know where his land is going to go.

Farm sizes have grown in our area very substantially. I accused the Metropolitan—I will not name it. It is an insurance company. I accused them of deliberately putting more farms together, so that in the next depression they would have a corporate buyer who could handle these large entities. His response to me was: "What do you mean, Rossiter? Sell them to corporate entities? We are a corporate entity. We would like to have this real estate. We have the capacity to manage it, but the law says we can only keep land we have foreclosed for 5 years. All we have to do is to change one word in the law, namely, from 5 to 20 years, or indefinitely. We would be happy to have the land."

We do have potentially the corporate structure to take over the farms in the United States and the lending agencies that are holding the mortgages. The real estate farm debt in the 3 years from 1977 to 1980 increased $25 billion from all sources.

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Personal, nonfarm debt increased an additional $20 billion in that 3-year period—$54 billion. Realize that net farm income was only $79 billion during that period of time.

Every farm operating in the United States had to borrow an average of $10,000 per year in order to sustain itself in the absence of parity prices and an adequate realized net farm income.

The Farmers Home Administration admits that it loaned more money in nonfarm agricultural loans from January 1, 1977, to January 1, 1980, than it had loaned previously in the history of the organization.

If you total all of this, the Farmers Home Administration, the Small Business Administration, the Commodity Credit Corporation, namely, all of the Government entities have literally bailed out not only the agricultural economy in the last 3 years, but they have bailed out the businessmen and the banks as well, because we have had the benefit of this added liquidity.

However, we have not solved the basic problem. That is going to require repeated bailouts year, after year, after year. This is the problem of inadequate farm prices.

Suppose we make the rich farmer richer. What is wrong with that? He has his investment. He has put his life's work into it. If he is producing x units of production, then he is entitled to his additional income and profit.

It also provides an entry point for the small farmer, for the son of that large farmer, when he can split off 160 acres and can afford to farm that profitably. That is the way we are going to save the farm economy, if that is important.

It is absolutely essential, as well, to save the national economy that we do this. It just naturally trends toward small farms if we do the right thing.

Corporations will make more money somewhere else in the economy, especially in an economy that is earning parity of income at all levels. They will not bother with farming. It will still be an underpaid industry, as such.

Mr. NOLAN. Thank you.

As I understand the new wealth theory of economics, I suspect that you would agree with something that is in opposition to something that you just said. That is, the purpose of it is not in any way, shape, or form to make the rich richer.

Mr. ROSSITER. No.

Mr. NOLAN. As I understand it, the theory is that raw materials, the primary source of new wealth, ought to be priced adequately, so as to cover costs of production and a reasonable profit.

Excess pricing, overpricing, or underpricing creates imbalances that have an exaggerated, rippling effect on the economy, that cause all kinds of things like the dislocations that we have now—high unemployment, expanded debt, rapid inflation.

Mr. Rossiter, thank you very much for your testimony. It has been very helpful and quite illuminating.

We have just one more witness, Mr. Charles Walters, Jr., editor and publisher of Acres U.S.A. in Raytown, Mo.

Mr. Walters, if you would, please take a seat and please excuse me for a 1-minute recess. We have another vote going on in the other committee.

[Recess taken.]

Mr. NOLAN. The subcommittee will reconvene.

Mr. Walters, I apologize for the delays and the lateness of the hour, but we welcome you.

STATEMENT OF CHARLES WALTERS, JR., EDITOR AND PUBLISHER, ACRES U.S.A., RAYTOWN, MO.

Mr. WALTERS. Congressman Nolan, as you know, I am the publisher of Acres U.S.A. and Gasohol U.S.A., out of Kansas City.

I do not know whether or not I am an academician, but I do have a masters degree in economics and science.

Mr. NOLAN. We will not hold that against you. [Laughter.]

Mr. WALTERS. All right. I am a secretary of NORM, or National Organization for Raw Materials, and I am the author of a number of books on farm technology and economics.

About 9 years ago I wrote a history and a kind of text on the economic principles that I thought would be contained in this GAO report. That study detailed the work of Dr. John Lee Coulter, who is formerly of the U.S. Tariff Commission. He is a former dean of North Dakota State at Fargo.

It detailed the work of Charles Ray. He was an engineer with General Wood, both in his service career and in Sears Roebuck.

It detailed the work of Carl Wilken, who was a farmer, a self-taught economist, and an analyst. He was at one time a farm leader as well.

I thought that the GAO report would home in on the requirement of parity for national solvency. I get the impression from what we heard this morning, that this is not going to be the case. I do not know why.

However, I have a fundamental question in my mind that I will state to you. I think it is because they do not understand what we are talking about. They do not understand the grammar of the subject and have not really gotten into it enough.

Therefore, we are asking fourfold questions in a kind of peripheral way.

The thing that sets apart what we call raw materials economics from the quasibusiness principles that we heard discussed this morning, and which are embodied in most public policy and legislation, is that we have a foundation concept. Raw materials economics deals with structural balance for the several sectors of the economy, and it deals with the structural balance where the raw products of nature enter the economic cycle.

Our analysis proceeds from the proposition that there is only one equation in any economy that makes possible a national profit or a social surplus, if you will.

All equations in all economic activity read: Man credited. Man debited. That is, all except one.

When we take raw materials from nature, the equation reads: Man debited. Nature credited. We do not pay nature back.

We, in short, have free revenue from nature or from the Sun in the case of energy.

Except for the cost involved in growing a crop, the raw materials produced by the farmer are really a gift from nature. The same

holds true for minerals, oil, production taken from the sea and the air. Man debited. Nature credited.

Socialists will claim that profit is theft, that it is the taking of the share that really belongs to somebody else. This may even be true in the case of a business equation, but it is not true in a national economy. It cannot be true, unless that economy can exploit a profit by international trade.

This is really the big argument for parity, because parity means parity for business, parity for labor, and parity for the farmer. So, if you want to think of parity, think of it as par.

Everyone knows what par exchange is. It is a fair deal for each side taking its profit from the social surplus generated as the raw materials move into trade channels. This is a dilemma for the thinking of most people.

The individual sometimes believes that his best interest is one thing, when his best interest is something else.

My best interest may be, I think, to have cheap utilities. If I get my way and everyone gets their way to the point where we collapse the utility company, we have no electricity.

We have that same thing in agriculture. The breadmaker, unschooled in economics, would really like, not just cheap wheat, but free wheat. However, the raw material producer has to have his parity, or no profit is made for the economy in general.

I challenge some of the assumptions that have been stated here this morning, that parity will result in higher land values which put corporations in the posture for a takeover.

During the 1973–74 period, I priced the land along both borders of Missouri, from Kansas clear down to the Oklahoma line, two tiers of county deep. I could not find 1 acre of land for sale—not one—when farmers temporarily, and possibly accidentally, jumped above parity.

The reason for this is easy enough to understand. The farmer does not sell his land to gain a capital profit, or only rarely. He sells under duress, when he is going broke; when he is told to sell out; when the policeman of rural America, the bank examiner, requires the banker to call in the loan.

Farm income has to be understood, and it is not being understood by the USDA people. I think Mr. Schaefer understands it, but I question whether the other people at GAO understand it.

It has a quality that no other types of income have. It serves as a basic operating income for the farmer, obviously, and it provides the foundation income for rural townspeople who provide services to the farmer as a consequence of division of labor.

However, it means more. Farm income is our biggest share of the total new wealth created by an economy in any given year or any accounting period. Therefore, it is the total addition to the existing money supply.

It, with other raw material income, is the source of investment for expansion and the foundation for the total savings of any economy.

Reason with us for a moment on this. Fabian Societies have been unable to make good their promise that they would make people well; they would print money; they would create parity as if by magic.

Why are all of these underdeveloped countries underdeveloped, if it is merely a matter of creating credit and printing money, bonds, bills, notes, and other certificates?

In truth, our national earned capital was built from a virgin country. It took generations, each adding annually to the gross value of raw material production, one year topping the last to bring on savings. The savings, which reflected a holdback from consumption, built so many homes, so many churches, so many highways, and so many capital improvements.

In earlier times people actually waited for the next crop to come in to finish a project, because they did not have the instrumentalities of borrowing from future earnings.

However, no capital or savings are generated if raw materials entering the cycle are not monetized on par with wages and capital costs.

That is the question we had hoped would be asked. The statistics are in the books ready to answer that question.

The Federal Reserve bulletins are telling us this, if we have the wisdom to read them. Year after year the President's economic report points with damning finality toward the Nation's liquidity problems. Mr. Rossiter has correlated these figures for you and presented them.

The missing element in everybody's thinking in the conventional economic set seems to be cause. For some reason that escapes me, our economists cannot see a causal relationship between raw materials entering the cycle and income at the national level.

I believe that this is because most economists do what John R. Commons always said they did. They pick up economic analysis somewhere in process. They become so removed from foundation precepts, that they suffer the delusion of the British manufacturer who was told during World War II: "Your factory has just been destroyed by Nazi bombers," and he responded: "So what? It is insured."

The only sound way to get newly earned income into the picture is not through bookkeeping arrangements, tax offsets, cute little tricks in the financial system, but through the production of new wealth times price per unit.

That money does not have to be repaid. The consistent way of developing income is through production of food and fiber at parity.

You have a very broad distribution here, and it quickly enters into the consumption cycle, so if you monetize raw materials at full parity, it does not matter whether or not the Fed can create credit, because there will be very little need.

Again, this is what the statistics are telling us. The liquidity figures of banks that Mr. Rossiter has developed for you are trying to hand you that precise message: Create income soundly, or suffer inflation.

That is what those figures are saying in loud terms.

Two years after the Employment Act of 1946 was passed, the French economist Jacques Reuff said it all: "Inflation does more than complicate the works of parliaments. It makes them a laughing stock and discredits them." It, therefore, causes legislative bodies to sacrifice freedom to soothe the indigestion caused by lack

of par between farm and city, between section and nation, and between nation and nation."

Always, the so-called beneficiaries of Fabian measures to offset this requirement of creating income through credit expansion become the first victims. I ask you: Who are the victims of inflation today? They are the people on pensions, the people on social security, the very people we told would be the beneficiaries of Fabian measures.

Again, that is what inflation is trying to tell us.

I submit that the track record of the people representing USDA, the people who have been writing the Presidential economic reports for the last 28 years, are near absolute zero. It kind of reminds me of when Ingersoll was being faced by his stockholders from the New York P.M. Newspaper and he refused to see them. One of them departed and said: "His failure has gone to his head."

There are only three ways to bring money into circulation. By the production and sale of raw material, the products of nature, that is the dollar we earn and from which we draw an economic profit for the entire system.

However, we can also bring money into circulation by issuing it, as provided in the Constitution. We can also do it by taxation, transfer payments, and credit devices. These are the methods we have been following for 28 years, ever since we struck down parity. They lead to bankruptcy, because they dissipate the savings of future generations and the future of our people.

These relationships cannot be comprehended if too much attention is diverted to all of the little wiggles on the economic chart. Parity as a measuring device from any sound base period is a sound procedure, unless someone can made the position and defend it that technology has favored agriculture more than it has favored other sectors of the economy.

We are told that technology has benefited agriculture, because the farm worker's productivity has increased 75 percent over 20 years ago, when compared to manufacturing workers. I submit that this is ludicrous. A computer can only deliver what you feed into it.

Had industrial wages been reduced, as have wages for the agricultural worker, had free convict labor been factored into manufacturing, it indeed could have made the productivity of manufacturers comparable to that of agriculture.

The farmer has in fact received little return on his investment for 28 years, and in most instances he has worked for free, just like a convict. Under public policy, USDA policy, he has no more to look forward to than a convict has, ultimate release from his misery.

We heard this morning about the surplus syndrome. We do not hear it quite as strongly or loudly, because there is the shadow in the wings of gasohol, farm fuel. Even USDA knows it is not possible for American agriculture to overproduce, not if we use the product to make alcohol. It is not possible, so we will not hear canard for very much longer as a reason for why farmers cannot have a parity price.

Mr. Chairman, I obviously cannot comment too deeply on the GAO report, simply because I have not read the entire text. I have not read it. I have read these comments that were available.

This does not prevent me from seeing a problem. I have been an editor in my life of a professional journalist under peer review, as I understand the GAO report is. I understand that it is required to endure peer review.

I point out that the man with a new idea really has no peer. Raw materials economics and the parity concept itself are old, yet the refinement that we have accounted for in NORM is brand spanking new and light years ahead of the conventional wisdom that we have available.

Ultimately, good ideas have to stand on their own merit, not on credentials, ceremonial claptrap, or reputation. Considering the wealth of input available, I am almost always appalled by the impoverished end product, when peer review is imposed.

Peers cannot get answers because they usually do not know the questions, and they cannot know the questions, if they have not paid out the price of effort required to understand raw materials economics and what parity has to do with national solvency.

I might point out that all of the governments of the world—and you pointed it out in your paper this morning—have one common problem. They are all in the same dilemma, because they are all listening to the same type of economist—dictators, socialists, democracies.

To my knowledge, there is only one economist in the world today who is taking our side. That is Delfin Neto, who is the Agricultural Minister of Brazil.

When I was in Brazil not long ago, Delfin Neto made a statement that: "We will not control inflation in Brazil, until we improve the participation of agriculture into the net product of the nation."

Under his administration, until he fell out with Geisel, he reduced inflation from over 100 percent down to 10 percent, and did it in a very short period of time. It is something in excess of 40 percent now. I do not know whether or not he will be any more successful than we are in getting these points across.

Nevertheless, there are people who think the way we do.

The only concluding remark I can make is that I am sorry to see the Congress could be made to endure the humiliation of having its reports censured by peer review.

I appreciate the opportunity to present these few thoughts and remarks to you, Mr. Chairman.

Mr. NOLAN. Thank you very much, Mr. Walters.

I must conclude the hearing because of the lateness of the hour.

I do want to say one thing though. That is that the work that you have done, and others like you in NORM have done, in Acres U.S.A., in similar groups, and that some people here in the Congress have done appears largely to have gone unheeded. The admonitions, the advice, the counsel, the recommendations, all appear to have gone unheeded, and the country seems clearly to be suffering the consequences.

However, let me say to you that that should not be taken in any way by you or by the people you work with as evidence of failure. On the contrary, because of the personal work that you have done,

and because of the work of Vince Rossiter and our good friend, Red Paulson—who is no longer with us—and others like you, a great deal of good has been accomplished and a great deal of success has evolved from that.

Because of your work, many people have simply taken a lot of comfort from knowing that people like yourself are out there, at great personal expense and sacrifice, advocating. Because of your work, I think, there are gradually more and more enlightened people concerning where we need to go and how we get there, and because of your work and people like you I think there are more people who get up the gumption, courage, and confidence to speak out and do something on their own.

If you begin to look at your work in that regard, I think it becomes incredibly successful and, to say the least, vital and essential if we are ever going to reach the level of enlightenment that will be necessary to achieve our goals and straighten out our national economy—and even more important, to straighten out the national economy in a way that insures a greater justice, a greater equity, and greater fairness in our system.

With that will come peace and so many of the other idealistic notions that I think almost everybody subscribes to and wishes will come to pass.

I, personally, am very grateful to you and the others for the work that you have done. I just wanted to take this opportunity, which will be one of my last opportunities, to make that expression of gratitude and get it into the record. Thank you very much, sir.

Mr. WALTERS. Mr. Nolan, on behalf of NORM and those of us who knew Red Paulson, at this time we would like to thank you for the kind message you sent to his funeral, which was read there. I think it told us that you indeed do understand what we are saying.

You, yourself, are probably a lone voice up here, but I think we can say with total confidence that there are thousands of farmers out there whom we have been totally successful in reaching and explaining this to.

Mr. NOLAN. I know that. There are more and more all of the time. That is why I say that we may not appear to have been successful in the end product yet, but the enlightenment and the numbers are growing. We owe a great debt of gratitude to you.

Before I conclude, let me announce that the hearing record will remain open for roughly a period of a month or so following the publication of the final GAO report, so that interested parties will have an opportunity to submit additional written comments on the final report to the subcommittee.

We would like to keep it open for a month, but that depends on how soon they get it to us. We do however want to have it completed before the end of this term of Congress, so with only that modification, we will keep the hearing record open.

With that, I will adjourn the hearing.

[Whereupon, at 12:43 p.m., the subcommittee was adjourned.]

[The prepared statement of Mr. Rossiter and submitted material follow:]

PREPARED STATEMENT OF V. E. ROSSITER, SR., HARTINGTON, NEBR.

Some things never change. One of these is the basic needs of any economy for an abundance of readily available raw materials, as a primary source of production. Another is that man is still essentially a biological mammal and in spite of technology his basic needs are food, warmth and shelter. All of these needs are dependent upon raw materials produced from the soil, the sun and the seas. Deny the human being food, and everything else will come to a halt; or deny him clothing and housing and he will perish in the elements. Since the beginning of time these basic needs of man have not changed, nor has their source of satisfaction.

If these basic raw materials are so essential to mankind then it is reasonable to believe that they must be brought into the economic system at prices which are harmonius with the cost of all other goods and services, not only to assure their continued production but also to assure that enough earned income accrues in the economy to provide for their consumption, at that price level.

David Ricardo's theory of comparative costs has shown that cooperation under the principle of the division of labor is favorable to all participants. Neither Ricardo nor Malthus found any problem of economic imbalance so long as production of essential raw materials keeps pace with the growth in population; the addition of newcomers improves rather than impairs the conditions of those already cooperating. In a stable economy, as population increases, the labor force increases, production increases and consumption increases, in direct ratio to the increase in population and in raw material production. The economy is thus assured growth, without economic instability and inflation; financial solvency is maintained

as new resources meet new demands and a growing profit accrues to provide for new homes, new factories, new schools, new highways, new churches and on and on, without resorting to the use of excessive credit -- credit in excess of the current annual savings.

In spite of a growing population and abundant landed resources in the United States, since the turn of the century, and particularly since World War I, the conventional economic concept of 'free trade' has caused serious disharmony between various sectors of the United States' economy.

While carrying out an expanded policy of 'free trade' between the United States and foreign countries, certain sectors of the United States economy have suffered severe economic disruption from foreign competition, while other sectors have profited handsomely. This disparity in the benefits of 'free trade' is explained away by a quick reference to Ricardo's theory of comparative costs, which is traditionally interpreted as completely ruling out any effort by government to 'protect' the damaged sectors of our economy, thus offering only begrudging relief, if any, to important domestic economic sectors, which are very essential to the domestic economy at all times, but particularly in times of war.

Likewise, the application of the conventional concept of 'free trade' to the domestic economy has caused severe distortions in the relative income levels earned by the various sectors from 1952 to 1979, as compared with a base period of 1947-49, a parity period. This distortion is equally as devastating to the domestic economy, as is 'unfair' foreign competition, and much more insidious because we

'do it to ourselves' as a matter of public policy in the name of competition and efficiency -- which in other circumstances would be the strength and vitality of a balanced economy, in a free society.

In a statement in a recently published searching analysis of the value of conventional economics as opposed to the value of economic history, Ludwig von Mises, an internationally recognized economist, had this to say. (we quote)

> "It is true that the terms in which many economists, especially those of the older generations, expressed the results of their inquires could easily be misinterpreted . . . One of the most famous theorems developed by the Classical economists, Ricardo's theory of comparative costs, is safe against all criticism, if we may judge by the fact that hundreds of passionate adversaries over a period of a hundred and forty years have failed to advance any tenable argument against it. It is much more than merely a theory dealing with the effects of free trade and protection. It is a proposition about the fundamental principles of human cooperation under the division of labor and specialization and the integration of vocational groups, about the origin and further intensification of social bonds between men, and should as such be called the law of association. It is indispensable for the understanding of the origin of civilization and the course of history. CONTRARY TO POPULAR CONCEPTIONS, IT DOES NOT SAY THAT FREE TRADE IS GOOD AND PROTECTION BAD. IT MERELY DEMONSTRATES THAT PROTECTION IS NOT A MEANS TO INCREASE THE SUPPLY OF GOODS PRODUCED. THUS IT SAYS NOTHING ABOUT PROTECTION'S SUITABILITY OR UNSUITABILITY TO ATTAIN OTHER ENDS, FOR INSTANCE TO IMPROVE A NATION'S CHANCE OF DEFENDING ITS INDEPENDENCE IN WAR." (capitalization added)
>
> Ludwig von Mises

It was on the occasion of World War II, in the wake of a devastating depression following World War I, that Congress in it's wisdom chose "to improve our nation's chance of defending itself and its independence in war" to paraphrase von Mises, by instituting what

is known as the Steagall Act. The Steagall Act provided for an arbitrary support price for most storable and some perishable farm products at 90% of "parity" until two years after the war was declared officially ended.

Congressman Steagall was the Chairman of the Banking Committee of the House, and the purpose of his 'act' was, not to provide farmers parity prices for their own benefit, but rather for the more specific purpose of "providing a foundation for a stable dollar during the course of, and immediately following World War II".

It served this purpose with remarkable precision. The dollar remained stable in its relative purchasing power, both during the war and during the post-war period of transition from war to peace, and greatly expanded industrial production of civilian goods, until 1952.

It is our understanding that the Steagall Act is still a part of our basic law and can be implemented with the stroke of the pen by the Secretary of Agriculture, at the direction of the President.

Critics of parity contend the Steagall Act was "undue government interference in the free market". David Ricardo said that this is true only if "protection" interferes with expanding production. However, in agriculture, increasing production hasn't been the problem in the United States. Surpluses generally prevail.

The reason for this is that the law of nature compels farmers to produce almost half of their entire physical production at least one year in advance of the needs of society., i.e. enough wheat must be

grown, harvested and stored to meet the needs of society for the succeeding 12 months, until another crop can be produced.

It is apparent that the ability of some 2 million individual farm operators to feed a 12 months supply of food and fibre into the economy in daily rations, as it is needed by society, can become a confused and cumbersome job, without some form of government supervision.

Even so, the efficiency of agricultural production is alleged to have been nearly twice that of industry for the past decade or more. However, efficiency is measured by the labor cost per unit of production, and it is altogether possible that had industrial labor wages been declining, at the same rate as the relative decline in the value of farm products, industry might also show improved efficiency, and reduction in labor cost per unit of production. It would make just as much sense to reduce wages as to permit farm prices to decline relative to the cost of other goods and services. But it makes no sense at all to do either when our capitalistic economy is dependent upon improving profits--we recognize that massive doses of increased income and profit are needed annually. In this context efficiency becomes only a relative factor and far less important than improved profits.

In agriculture, surplus production is a natural phenomenon. Not knowing what the weather, insects, supply/demand factors, availability of labor and now petroleum, are going to be, the farmer produces, or plans to produce, all that his land and other resources will permit. He generally produces less than he plans, but neither he nor anyone else can know in advance what his production will be.

Market price "protection" at 90% of what is considered a fair price, would not seem to be out of order to assure society of sufficient food and fibre, to sustain life and comfort, as well as to provide a reciprocal market for goods and services produced in other areas of the economy. After-all, farmers are consumers too, and like consumers in any walk of life, can only consume what they can afford to buy and pay for. It is an important fact of life that both parties to a bargain must profit, or one will not survive. Nor will the other party survive ultimately, when the disadvantaged party is the only source of food and fibre.

"Protection", for the viability of the agricultural economy, was removed on enactment of the provisions of the Farm Act of 1952. This law effectively unhitched farm prices from farm costs; the costs of other goods and services with a newly enacted "sliding scale" farm price structure. The consequences to agriculture, and ultimately to every sector of the entire economy, has been just short of disastrous. Short of disastrous because it has not quite precipitated a depression of serious dimension -- yet.

One of the most significant indicators of what has happened to the overall economy is an analysis of the liquidity of the commercial banking system during the period of 1942-51, when 90% of parity support prices effectively maintained an average of 100% of parity for all farm prices for 10 years: then contrasting this period with the historically low level of the liquidity in the commercial banking system after 28 years of "sliding scale" farm price supports. (See exhibit "E" to trace the progression of the decline in commercial bank liquidity from 1941 to July 30, 1980, and exhibit "F" to illustrate the futility of the October

1979 and March 1980 "control measures" by the Federal Reserve Bank.)

The resources of the commercial banking system are variously estimated to be from 20% to 33% of the total financial resources in the entire financial system. Insurance companies, savings and loan associations, credit unions, investment companies, and numerous other sources of finance, along with the commercial banking system, make up the total financial system.

The commercial banking system, large, however you look at it, is probably the most sensitive indicator of what is transpiring in our overall economy from month to month. It typically reflects the economic circumstances of every part of the country, from the smallest rural communities, to the largest cities.

If a bank's loans and investments are high in ratio to its deposits in a given community, it means that community isn't generating enough income and profits to support itself, nor make a 'functional' contribution to the liquidity of the system.

When an individual bank becomes low on liquid resources, it can be strictly a local condition, such as a drought in a rural area, or it can be shoddy management, but in either event it isn't significant to a larger area, nor to the United States as a whole.

However, when the entire commercial banking system of the United States runs low on liquid resources, it is very significant indeed and should be the concern of every thinking person, particularly those in government and with responsibilities in the business community.

The reason is simple and fundamental.

The commercial banking system is the most liquid part of the entire financial system. A large portion of its deposit liabilities are due it's depositors on demand, and its depositors include all of the other members of the financial system, as well as corporate entities outside of finance, and millions of individuals and partnerships.

The commercial banking system is alleged to hold 66.6% (Two-thirds) of the liquid resources of the entire financial system, and in many cases 100% of the liquid resources of individuals, partnerships and corporations. A total of approximately $1.1 trillion dollars of deposits.

Therefore when the commercial banking system daily obligates 100% of its deposits and a substantial portion of its equity capital in loans and investments to its customers, where is the liquidity that it must have to meet its deposit liabilities 'on demand'? (see exhibits "E" and "F")

Still you know as I do that commerce seems to go on from day to day and has not come to a halt because of illiquidity -- yet.

Therefore, it is important, when it becomes evident to the power structure of the United States, that because of 28 years of mis-directed economic policy, centered largely in mis-guided agricultural policy, that it doesn't react too violently to the fact that the commercial banking system finds itself loaned and invested at a level higher than in any other period since 1914; significantly in excess of the ratio that prevailed on June 30th, 1929, just 4 months prior to the inception of the depression of the 1930s. (Note comparison on the extension of exhibit "F")

A brief historical accounting of the evolution of the commercial banking system published recently by the American Institute for

Economic Research, Great Barrington, Mass., captures the substance of why our economy and the banking system at one time in history succeeded, and why it now fails. (I quote)

> "The more proposals we have studied for establishing a proper "price" for gold, i.e., for setting a suitable gold-weight dollar, the more we believe that the task defies the abilities of the most knowledgeable individuals or group of individuals, but that does not cause us concern. Instead, it forces us human beings to the markets for a solution. There, all of the human talent is continuously working to find solutions to economic problems.
>
> "When this nation's economy boomed after the Civil War until World War I, the markets developed a system to meet the needs for effecting in a noninflationary way the growth process. THE BASIC PRINCIPLE OF SOUND COMMERCIAL BANKING EVOLVED IN FREE MARKETS. THE GOLD EXCHANGE VALUES OF THINGS PRODUCED COMING INTO THE MARKETS WERE BRIEFLY MONETIZED, AS THOUGH THEY WERE SO MUCH GOLD, BY THE COMMERCIAL LENDING PROCESS, WHICH INVOLVED AUTOMATICALLY SELF LIQUIDATING SHORT-TERM LOANS. WHEN THE LOANS WERE MADE THE BANKS CREATED CORRESPONDING CREDITS TO THE CHECKING ACCOUNTS OF THE SHIPPERS, AMOUNTS'NOT' DEDUCTED FROM OTHER CHECKING ACCOUNTS. IN EFFECT THIS MAKES THE GOLD STANDARD FLEXIBLE ENOUGH SO THAT THE GREAT UNFORSEEN INCREASE IN PRODUCTION AND EVEN GREATER NEED FOR TRANSACTIONS "MONEY" WAS ACCOMODATED. THESE NEWLY CREATED PURCHASING MEDIA WERE CANCELLED BY REPAYMENT OF THE LOANS AS THINGS WERE SOLD IN THE MARKETS.
>
> "No economist invented the system. No governments created it. Human beings operating in free markets coped with a problem for which no solution previously had been provided. However, by the time the Federal Reserve Act was passed in 1913 the basic principle of sound commercial banking was so widely recognized and applied that it was embodied by specific wording in the Act." (2) American Institute for Economic Research (emphasis added)

While this item explores the restoration of gold as a base for U.S. currency, it mentions specifically "The gold exchange values of things produced coming into the markets were briefly monetized, as though they were so much gold. . ." which achieved the equivalent of what we refer to today as parity. Before centralized monetary control,

i.e. the Federal Reserve Act, and mis-directed and mis-applied farm programs after 1952, parity farm prices were provided in the market place. The result was, "a system to meet the needs for affecting in a noninflationary way the growth process."

To put the vital interests of raw material production at the mercy of the current approach to 'free trade' and the so-called 'law of supply and demand' will not duplicate the circumstances that prevailed during the period between the Civil War and World War I, as some contend, because of the legislative maze that has been created since World War II. It is now necessary to correct the legislation and induce a market function that produces the same results of parity prices on agricultural products and other raw materials. . as it would occur in a free market.

Too many people erroneously assume that the United States can prosper from an underpayment to the agricultural economy. Quite the contrary is true. (exhibit "B1-B2" - Distortions in National Income by sectors).

With the division of labor in the economy of the United States every sector is interdependent upon every other economic sector to liquidate its wares, but only the production of the farm sector (and other raw material production) has the ability to 'create' real wealth in terms of dollars added to the monetary system, as these raw materials enter the economy.

The total annual production of raw material in the United States is unique in that it provides a vital dual function. This unique quality is the most difficult 'fact' about raw material economics for the conventional economist to accept. Their adamant refusal to even discuss it in any but derogatory terms, confuses others. This is understandable because

it tends to refute conventional economic thoery. Still it is so fundamentally basic and understandable in its logic that farmers and rural businessmen readily accept it, probably because they experience it from year to year. The concept is so strong that every effort to 'do away with it' fails.

The advocates of parity prices on raw materials, 70% of which are agricultural in an annual cycle, reason in this fashion..

First of all, raw material production sold at 100% of parity prices, provides a market for whatever production is necessary to provide for the needs of society. Being in balance with the prices (parity implies equity, i.e. balance) of all other goods and services, raw material income will first provide a reciprocal market for manufactured goods and services produced in other sectors of the economy, to the extent of the income received. The process will provide a market for full production, in all sectors and also provide the income for full consumption, without the use of debt in excess of the savings generated in an annual cycle. The operation of the market place, in a noninflationary economic climate, will provide a stable dollar and a solvent financial system. (note 1942-51 parity period exhibit "B" National Income, and "D" loan and investment to deposit ratios - Commercial Banks)

After providing a reciprocal market for goods and services, which are consumed by the producers of raw materials, the second function of raw material income is to act as a catalyst in the over all economy by providing essential additional 'new wealth'. The value at which raw materials are monetized as they enter the economy in raw form "creates" money that never existed before - just as the raw materials produced in an annual cycle are the only 'things' really new which never existed

until they were extracted or grown in this annual cycle.

Then, as these new dollars received in the sale of raw materials are spent by the producers of raw materials, they have a multiplier effect which has been variously computed at from $2.50 of national income for each $1.00 of raw material income, to as high as $14.00 of national income for each $1.00 of raw material income. However, in more stable economic circumstances, each new dollar of raw material income, provided one dollar of factory wages, and $5.00 of national income as it flows from the producer to the retailer, to the wholesaler, to the manufacturer, and ultimately to the laborers in the form of wages and to profits for the system. (3)

The catalytic effect of raw material income induces a recycling of "old wealth" (new wealth accumulation in prior years), which in turn generates the "gross income" as the various sectors of the economy interact in the exchange process typical of an economy which optimized efficiency into various divisions of labor.

Then, typical of a catalyst, the "new wealth" money precipitates out of the economic function to be added to the total of "old wealth" at which point it is converted from "market for goods" to residual profits, now available for investment as new savings, and as a foundation for economic growth. Annual economic growth is then provided with a high degree of precision, to fill the growing needs of an economy which must expand 2% to 3% per year just to accomodate a growing population and labor force. But, never-the-less, growth is completely and irrevocably dependent upon, and limited by, the annual creation of 'new wealth' investment funds from the monetization of raw material production at parity with other costs.

At this point, the overall economy is poised for another injection of 'new wealth' from raw material production monetized at parity prices, in a never ending repetition of economic cycles which embody parity, prosperity, and as an eternally desirable by-product, world peace, which usually prevails in a prosperous and stable world economy.

The only variable that should exist in the parity equation is the number of units of production in an annual cycle. The unit price must remain the same from year to year, if we want a stable dollar. Farm production can be controlled at an optimum level to provide for food and fibre raw materials, and every other sector of the economy will fall into line in the operation of the free market. At least that is essentially what happened from 1942 through 1951.

This does not mean that there will be no aberrations in the over-all economy, because there will be, both in production and prices, except where regulated. However the market function will force correction from cycle to cycle, or penalize the producer. Even with 90% of parity farm price supports on storable farm commodities, (those produced a year ahead of the needs of society,) a 10% increase in price at the market place to achieve 100% of parity prices is enough incentive to induce farmers to shift out of corn, for example, if it is selling at 90% of parity and into soy beans if it is selling at 100% of parity price. While encouraging 'free market' function above 90% of parity, such price supports also protect the general economy from a disasterous loss of market for goods and services, as well as the catalytic 'new wealth' investment funds, which occur at prices substantially under 90% of parity, such as the

current price level of 63% of parity.

If this historic economic 'fact of life were not true, where did the multi-billions of dollars 'new wealth' development money come from, during the period Dr. Kuznets writes about, from 1770 to 1975? How was the settlement and development of the United States financed and paid for if it were not from 'new wealth' created in annual increments of raw materials in a relatively free market oriented economy?

Why is it that today the commerical banking system, with only 1/5 of the financial assets of the nation, show total deposits of $1.1 trillion, and currency and coin at only $17.7 billion, only 1.6% of total deposits. Checking account money makes up 98.4% of the total deposits of the commercial banking system on July 30, 1980. Where do bank checking account dollars come from, if not from the monetization of the annual production of raw materials? And where did all of the gross income generated in an annual cycle go after it performed its appointed function of clearing the markets, and then disappearing? "These newly created purchasing media were cancelled by repayment of the loans as things were sold into the market" from the Civil War to World War I. Why not now?

It is still possible that our existing economic problems stem from ignorance, rather than bad intent, though it is difficult to decide. Our ignorance is the product of listening to 'book-learned" economists whose numbers have grown almost as rapidly as the public and private debt in the last three decades, and from ignoring the students of practice and history. Practical wisdom is more discerning, provides a broader perspective and is very apt to be more productive than expertise.

An excellent example of 'a bit of wisdom' presents itself in a book written by the renowned Dr. Simon Kuznets, the creator of the original "Economic Indicators" for the guidance of the United States in the early 1940s. At the very outset of his book entitled "Growth, Population and Income Distribution" Dr. Kuznets writes of the growth in the United States from 1770 to 1975, as follows:

> "In the mid-1770s, the population of the thirteen original colonies was 2.5 million. At that time, the population of Great Britain was 9 million; and France over 24 million; c. Europe, excluding Russia, 128 million (all within the 1914 boundaries). By 1910 the population of the United States was 91.6 million (excluding for comparability, the minor group of nonwhites other than Negroes) --over twice that of either Great Britain or France (each with about 40 million at that date). By mid-1975, the population of the United States was close to 214 million. The multiplication factor over the two centuries was about 85 for the U.S. population: for Europe including or excluding European Russia, it was about 4; for the more rapidly growing among the European countries, not much more than 7. Nor was the contrast less striking in comparison with the population growth of Japan.
>
> "The contrast is, of course, the result of a long period of cumulation of the excess of annual or decennial rates of increase in the United States. Over two centuries the average rate of population growth per year was 2 and 1/4 percent of the United States, and 0.9 percent of Great Britain. Taken over a decade or two, the cumulative difference would not be large; taken over two centuries, it cumulated to a contrast in multiples between over 85 and barely over 6 . . . . .
> The sources of the difference lay largely in the birth and in-migration rates. The birth rate in the United States in the early nineteenth century was estimated at close to 50 per thousand--high even by current standards in the less developed countries. . . .The other major source of growth was immigration. A calculation made by a census expert (W.S. Rossiter) using the native white birthrates prevailing in the past, estimated the contribution of the original whitestock (i.e., the one in this country at the time of the Revolution) to the 1920 population of 94.8 million--the rest being immigrants and their decedents. This result, that half of the population was to be credited to immigrants and their descendants and would also hold true of the more recent dates after 1920.

> "The persistence, over two centuries, of birthrates higher than those in the older developed countries of Europe and Japan, and the prevalence over some eight to nine decades of net immigration that contributed so much to population increase, may reasonably be associated with the "newness" of the United States. The "newness" meant the presence, and the awareness of the presence of vast resources in unsettled land of a geographically expanding nation. . ." (3) Simon Kuznets
> (emphasis added)

From this account of history one must conclude that the days of cheating in the U.S. economy are over, without serious economic consequences to the entire economy. Theft of resources from agriculture can no longer be offset by the exploitation of our vast natural resources or a docile human element imported from foreign countries. Even if the importation of foreign labor were now possible, we lack the land resources on which to place them as productive citizens.

Besides, immigrants are no longer selected for the traditional abilities of the past, i.e., farmers, craftsmen etc., needed to settle the United States wilderness. Those coming to the United States now are more apt to be substantially unqualified for domestic labor, find themselves in an unfriendly and hostile foreign atmosphere, with only the U.S. welfare rolls as a redeeming feature.

Today the United States has become more comparable to the much older nations of Western Europe. In many ways the United States has exhausted its ability to grow and expand without limits. It is maturing or perhaps it has matured into a fully utilized geographic area. Any attempt to maintain the economic pace of the past is out of the question. To do it anyway, in spite of our shortcomings, will only hurry the exhaustion of vital natural resources and tax our fianacial capacity to a point of certain economic distress, and ultimate economic collapse.

In fact, isn't this already happening?

If we have a sincere concern for the economy of the United States, then we must recognize that the economic policies and programs of the last three decades have failed to achieve the desired results. Unless we can admit failure first, we can never achieve success. Unless we admit failure, no changes can be made, and a new start in another direction is out of the question.

We believe the record amply illustrates both the cause and the effects of failure. Refusal to accept these facts can only result in a repetition of history as I have attempted to illustrate at Exhibit "G", a depression comparable to the depression of the 1930s.

To ignore the opportunity to bring to fruition the vast potentials still remaining in our nation, though more limited than in the recent past, is to assure total economic disaster in the United States; a disaster which will reach into every nation in the world.

I am confident that the G.A.O. has made an objective study of the various parity concepts, their strengths and their weaknesses. Although I have not seen the complete report, nor do I expect to see it before I present this testimony, I am hopeful the G.A.O will have concluded that parity is a valid concept, and that with proper administration, it will work to preserve economic balance between all sectors of the United States economy.

The question is how do we deal with the necessity of maintaining economic balance, with the difficulties that present themselves through ineffective farmer controlled marketing organizations, inherent

surplus production (unique to agriculture because of the need for producing 12 months ahead of the needs of society), hostile consumer elements, uninformed and mis-informed members of Congress, other political considerations, and most of all diminishing farm resources in terms of constant dollars, high interest costs, and near record low levels of farm prices in relation to farm costs. These considerations are all too familiar with anyone who has dealt with agriculture and a parity concept.

We must, as a nation, accept the need for parity of prices and income in all sectors of the economy, and attempt to achieve it by the best market oriented method available to us, under government supervision.

If this violates someone's concept of 'free enterprise' then it is because his concept fails to recognize the over-riding obligation this nation has to restore solvency to the economy and stability to the relative value of the American dollar.

The lessons of how well parity worked during the period from 1942 to 1951 are fresh. The pattern is readily available, tried and true.

The period of 1942 to 1951 is known in the banking industry as a period of 'super-liquidity'. For example even though the banking system could only find amarket for 17.4¢ out of each dollar of deposits in loans to individuals, partnerships and corporations at the end of the year in 1945, there was no inflation, nor did we stumble into a depression at the end of World War II, as we did after World War I. Even after 6 years of frantic industrial production to make up for the short-comings of the war years, the banking system could find a market for only 37.1¢

out of each deposit dollar in loans to individuals, partnerships and corporations by the end of 1952. In all this time farm prices had been supported at 90% of parity, and had achieved 100% of parity on the average at the market place. The 90% of parity program had indeed stabilized the American dollar, and the entire U.S. economy in the process.

With the inception of the "sliding scale" parity farm prices in 1952, in the face of increasing farm costs, economic balance in the United States was destroyed. The result is a 76.4% decline in the relative level of Realized Net Farm Income, as a share of National Income by the end of 1979. It also created a decline of 51% in the income level of small business enterprises; a decline of 60% in the relative share earned by rental property; and a decline of 27.9% in the relative profit level of all corporations in the United States. All of the computations are based on projections from the 1947-49 share earned by each of these sectors.

This is contrasted by a 240% increase in the relative share of national income earned by the 'Net Interest Income of Individuals' sector which reflects the increase in total public and private debt, and the increase in the interest rates on this debt. (see exhibit "C" for details)

The cumulative loss, or disequilibrium, in realized net farm income, small business income, rental income and corporate income from 1952 to 1979 is an incredible $2,428.8 billion, with the largest loss $977.4 billion attributed to realized net farm income alone. (see exhibit "B" National Income 1952-79 with comparisons)

This dollar loss to the 'private enterprise sectors' was offset by the increase in the public and private debt of the nation from

$566 billion in 1952 to an estimated $5.4 trillion January 1, 1980. The difference between the loss of $2,428.8 billion in the private enterprise sectors and the increase of $4.8 trillion in public and private debt can be largely accounted for in 28 years of accumulated interest which has been added to the debt from 1952 to 1980.

The end result on this date is an historically low level of liquidity in the entire economy, as exemplified in the most sensitive area of the financial system, the commercial banking system.

Ironically, the total dislocation of national income in the 'private enterprise sectors' was apparently transferred to the sectors of wages and salaries and net interest income. However, the 'Private Enterprise Sectors' must earn enough gross income to pay all of the costs of labor and interest, in addition to sufficient profit to sustain itself. All of these costs are methodically passed on to the consumer. Even so, corporations have had to incur so much debt that the cost of interest paid by corporations now exceeds the total profit earned by corporate enterprise. Without a fantastic increase in both income and profits we will see a series of 'blue chip' corporate bankruptcies in the coming months. Other sectors of private enterprise are faring only a little better.

If we have a sincere concern for the economy of our nation, then we must immediately recognize the failure of the policies of the past 3 decades, beginning in 1952 with "sliding scale" farm prices.

We believe the record amply illustrates both the cause of failure and its effect. The information available must be accepted at face value. Refusal to do so can only result in a repitition of history.

We have the option of accepting a socially and politically undesirable one year increase in the retail cost of food and fibre in exchange for a decade or more of 'desirable' economic stability. (Until the next generation again forgets the lessons of practice and history). Or, we can condemn the United States to another catastrophic wring-out of the value of 90%, more or less, of its total value of physical and monetary wealth, in another depression comparable to the depression of the 1930s. (see exhibit"G" Profile of a Depression)

To avoid this catastrophy is justification for "protection" of farm prices by whatever means available, if that protection "will restore the economic viability of the country, and protect the liberty of its people". (Ricardo)

Whether it be right, or wrong, in a conventional economic sense, 90% of parity farm price supports is the only previously tried and proven stabilizer of the dollar that still remains unused in the present economic crisis. It is the only remaining avenue to a legitimate, economically feasible increase of earned income of a substantial amount which will "trickle up" through the various sectors to enhance the entire economy -- and then repeat this economic process with each annual crop year after year. It is the only economic force which will stabilize the dollar, and do so consistently -- so long as parity prices prevail.

The multiplier effect of improved gross farm income will restore and enhance the income levels of every other economic sector in the nation, except net interest income which will decline dramatically as profits increase and dependence on credit diminishes.

Savings will not be lost, nor diminished in any way by restoring the stability of the dollar, in fact the value of the savings dollar will for the first time since 1952 stop diminishing in value. More than likely savings will move into more lucrative investments, such as industry if exemplified by a 'stable' and prosperous stock market as dividends improve, and savings interest rates decline.

A greatly enlarged federal income tax base, from substantially increased profits and sales, should easily balance a responsible federal budget, and provide for expanded, and hopefully enlightened, government programs, or a reduction in the tax rates to whomever seems most deserving.

The related effects of increased "Gross and Net Farm Income" to the increase in "Wages and Salaries" from 1952 to 1979, (a profile of prosperity) are illustrated in exhibit "A", as they will occur the first full year of price correction

The correcting increase will occur the first year only, and then level out to an annual growth rate, with zero inflation, that will reflect in every sector of the economy based on a stable dollar and an increasing population; a solvent U.S. economy meeting the needs of society in a moderate and meaningful manner, year after year.

The alternative to this unremarkable performance in the U.S. economy once farm prices are restored, is to continue on for the next several years hopelessly burdened with increasing debt and the cost of debt until complete collapse can no longer be avoided.

For example, it is an established fact that inflation averaged 8% in the year 1979. As a result of this level of inflation, debt expansion and increasing illiquidity in the financial system resulted in

interest rates rising to unprecedented levels. It has been conservatively estimated that this increase in the rate of interest averaged 2 percentage points, from 6% to 8%, on the total public and private debt in 1979. This means that the cost of interest, on the same debt with only the debt increase from 1978 to 1979 being added, amounted to $104 billion more in 1979 than it did in 1978. Add to this just one other item, the cost of petroleum products, which was estimated at $30.0 billion more. The cost to the consumer for interest, directly, and indirectly in the increased price of goods and services, because of rising interest and petroleum costs, was $134 billion more in 1979, than in 1978 -- as much as it would have cost the consumer to double the total value of farm marketings received by agriculture in the same year.

But it doesn't stop there does it? No, because in 1980, the inflation rate is being estimated at 16% to 18% on an annual basis. Interest rates have increased even more than in 1979, to an unprecedented prime rate of 20% per annum, to mention only one category. It is conservatively estimated that the cost of interest on the total public and private debt, currently estimated at $5.4 trillion dollars, will probably increase another 2 percentage points on the average in 1980, from 8% to 10%, with the possibility of the rate averaging 12%. However, with an increase of only 2 percentage points the cost of interest this year, 1980, will exceed the cost of interest in 1979 by $160 billion dollars. And it is conceded that the cost of petroleum products will again increase by an estimated $30 billion, in 1980. In that case the added cost of interest in 1980, over 1979, plus the increase in the cost of petroleum products, will be $190.0 billion. This is to say that the increase in 1979 of $134 billion over

1978, plus the increase of $190 billion in 1980, over 1979, makes the combined increased cost of interest and petroleum products in 1979 and 1980 a total $324 billion more than the consumer paid for these products and services as recently as 1978.

$324 billion now approaches the total cost of all food and fibre consumed in the United States at retail in 1979.

And 1980 is more than half over and we have to look at our loss in 1981 and then 1982 and so on.

Consider the fact that this has to go on and on, year after year, with no end to it, unless the economy is brought back into balance.

It is a fact, that a restoration of 1942-51 levels of income, if farm prices are restored to parity, will happen only once, and in the process it will increase the income level of all sectors in the economy enough to easily pay the added costs of farm raw materials. But it will happen only once, only the first year, and then level off and then remain in balance with all other sectors henceforth. It will happen only once, and not year after year as will the increase in public and private debt, and the interest rate will continue to escalate along with the total debt. (see exhibit "A" with all sectors of income restored to the increase in Wages and Salaries -- a real possibility with parity)

We repeat, the pattern of the 1942-51 parity period is fresh, readily available and can be implemented with the least possible delay. The shortcomings are known and can be corrected. The benefits can be as good or better than we have projected. It is the only game in town. We can continue to ignore it at our own peril.

Economists have been telling us for 30 years or more, that society can not afford to pay a price for food and fibre which will yield

the agricultural economy parity of price on farm production, and if they could afford to do it, they wouldn't tolerate it. Consequently "the 4% of the population that are farmers can forget parity prices for their commodities and become more efficient if they want to survive".

Can we appreciate the fact that the consumer is now paying the equivalent cost to support farm prices at 100% of parity, but not to farmers and not for food? $134 billion more in 1979 over 1978; $190 billion more in 1980, over 1979; perhaps $250 billion in 1981, than he paid in 1980. The 1979 figure is real and provable. The 1980 figure is based on solid preliminary evidence, though the year isn't quite over. The 1981 figures are purely speculative, but never-the-less based on recent experience, and with no change in public policy in the immediate future, they are a reasonable guess and probably conservative.

To paraphrase a paragraph from "Mater Et Magistra", the encyclical letter of Pope John the XXIII, "In the application of parity, however, there can sometimes arise--even among conscientious and completely honorable men--differences of opinion. When this happens they should be alert to preserve and give evidence of their esteem and respect for one another. At the same time, they should strive to find points of agreement for efficacious and suitable action. They should take special care, moreover, not to exhaust themselves in interminable discussions and, under the pretext of seeking the better or the best, fail meanwhile to do the good that is possible and thus obligatory".

The reason we mention "Mater Et Magistra", is because this excerpt, as well as others seems most appropriate to what we have written.

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In the early 1960s I had the rather unique privilege of meeting and visiting with one of the Vatican scholars who had assisted in the preparation of this encyclical. We were both attending a conference in Washington D,C, at the invitation of the then Secretary of Agriculture. In a conversation I ventured to suggest to this gentleman that "Mater Et Magistra", published only a year or so earlier, was evidently written for the benefit of the guidance of the under-developed countries of the world. I was promptly informed, in no uncertain terms, that "'Mater Et Magistra' was written for the guidance of the Christians of the western industrial nations, but more for the United States than any other nation in the world." At the time I thought this a bit incredible; now I see it in a different light.

Are we not, in fact, in this process "engaging in interminable discussion" under the pretext of determining "the better or the best" guaranty to sustain annual economic prosperity, while we fail to use proven policies "to do the good that is possible" now?

Isn't it our "obligation" to go with what we know, rather than procrastinate on the pretense of looking for the best solution, when in fact the procrastination may be designed to prevent solution?

At the very least, isn't it a perversion of history to acknowledge that the parity concept is workable, and has worked, and then refuse to take another good long look at parity raw material prices as a source of strength in our economy, and solvency in our fianacial system?

It is our fervent hope that the Parity Study by the General Accounting Office will be forceful enough in its final form to prompt a solid review of the parity concept by the Congress, in

in the light of history, and particularly the history of the last three decades.

Never before in history has the economy of the United States done so poorly, for so long.

Never before in history has the rot in our economic system been so deep-seated, and the government's will to confront the problem so weak, as it is today.

It is for these reasons that we are so deeply indebted to Congressman Nolan's Subcommittee on the Family Farm, Rural Development and Special Studies for its dogged persistency in the pursuit of the real facts involved in the fundamental concept of parity, and its potential to provide sustained economic growth and prosperity in the United States. We also wish to thank Congressman Nolan personally for his devotion to his constituency, and his staff as well for its whole hearted support of the parity concept.

Exhibit "A"

BILLIONS OF DOLLARS

Prosperity

1979 National Income sectors adjusted to equate to increase in compensation of employees 1947-49 through 1979	Total National Income	Compensation of Employees (Constant)	Total Income unincorporated businesses & professionals	Income of FARM proprietors	Rental Income of Persons	Total Corporate profits before taxes	Net Interest
1979	$1,919.7	$1,453.5	$ 97.6	$ 32.5	$ 27.0	$ 179.1	$130.0
1979 Compensation of Employees Sector 1,062.5% of 1947-49 average Hypothetical change	$2,264.2	$1,453.5	$230.6	$163.6	$ 78.6	$ 292.2	$ 45.7
Gain or Loss	$+ 344.5	$ 0.0	$+133.0	$+131.1	$+51.6	$+113.1	$-84.3

THIS EXAMPLE ASSUMES EACH SECTOR OF THE ECONOMY ENJOYED THE SAME PERCENTAGE INCREASE IN THE EXPANSION OF NATIONAL INCOME AS WAS ENJOYED BY THE LEADING SECTOR, "THE COMPENSATION OF EMPLOYEES" SECTOR FROM 1947-49 to 1979.

V.E. Rossiter, Sr.
Analyst

Exhibit "B-1" Page one (of a [illegible]age analysis) comparing national income by sectors as they actually were from year to year, and then as they would have been had each sector maintained the same relative share that prevailed from 1942-51, when farm prices averaged 100% of parity. The disequilibrium is computed annually and the cumulative total for 28 years on page two.

Source: Economic Report of the President 1979

Time Frame	Total National Income	Compensation of Employees	Income of farm proprietors	Total income unincorporated businesses & professionals	Rental Income of Persons	Total Corporate profits before taxes	Net Interest
1952	385.8	195.7	19.9	28.0	8.8	35.4	3.0
n 1942-51 av.		188.3	19.5	30.4	7.9	36.4	3.4
Difference		+7.4	+.4	-2.4	+.9	-1.0	-.4
1953	299.7	209.6	12.9	28.4	10.0	35.5	3.4
n 1942-51 av.		197.5	20.4	31.8	8.3	38.1	3.5
Difference		+12.1	-7.5	-3.4	+1.7	-2.6	-.1
1954	299.1	208.4	12.3	28.5	11.0	34.6	4.3
n 1942-51 av.		197.1	20.4	31.8	8.3	38.0	3.5
Difference		+11.3	-8.1	-3.3	+2.7	-3.4	+.8
1955	328.0	224.9	11.3	31.2	11.3	44.6	4.8
n 1942-51 av.		216.2	22.3	34.8	9.1	41.7	3.9
Difference		+8.7	-11.0	-3.6	+2.2	+2.9	+.9
1956	346.9	243.5	11.2	32.4	11.6	42.9	5.2
n 1942-51 av.		228.6	23.8	36.8	9.6	44.1	4.1
Difference		+14.9	-12.6	-4.4	+2.0	-1.2	+1.1
1957	362.3	256.5	11.0	33.9	12.2	42.1	6.5
n 1942-51 av.		238.8	24.7	38.5	10.0	46.1	4.5
Difference		+17.7	-13.7	-4.6	+2.2	-4.0	+2.2
1958	364.0	258.2	13.1	34.3	12.9	37.5	8.0
n 1942-51 av.		239.9	24.8	38.7	10.1	46.3	4.3
Difference		+18.3	-11.7	-4.4	+2.8	-8.8	+3.7
1959	397.1	279.6	10.7	36.6	13.2	49.2	8.0
n 1942-51 av.		261.7	27.0	42.3	11.0	50.5	4.7
Difference		+17.9	-16.3	-5.6	+2.2	-2.3	+4.1
1960	412.0	294.9	11.4	35.6	13.8	46.6	9.8
n 1942-51 av.		271.5	28.1	43.8	11.4	53.4	4.9
Difference		+23.4	-16.7	-8.2	+2.4	-5.8	+4.9
1961	424.2	303.6	11.8	36.4	14.3	46.9	11.2
n 1942-51 av.		279.5	28.9	45.1	11.8	54.0	5.0
Difference		+24.1	-17.1	-8.7	+2.5	-7.1	+6.2
1962	463.4	335.1	11.9	37.7	15.0	54.9	12.8
n 1942-51 av.		301.4	31.1	48.6	12.7	58.2	5.4
Difference		+23.7	-19.2	-10.9	+2.3	-3.3	+7.4
1963	481.8	342.9	11.6	38.7	15.7	59.6	13.1
n 1942-51 av.		318.2	32.9	51.3	13.4	61.3	5.7
Difference		+24.7	-21.3	-12.6	+2.3	-1.7	+8.6
1964	519.2	368.0	10.3	42.0	16.0	67.0	15.9
n 1942-51 av.		342.2	35.4	55.1	14.4	66.0	6.1
Difference		+25.8	-25.1	-13.1	+1.7	+1.0	+9.8
1965	566.0	396.5	12.6	44.1	17.1	77.1	18.5
n 1942-51 av.		373.0	38.5	60.1	15.7	72.0	6.7
Difference		+23.5	-25.9	-16.0	+1.4	+5.1	+11.8
1966	622.7	439.3	13.6	46.7	18.2	82.5	21.9
n 1942-51 av.		410.0	42.4	66.1	17.2	79.1	7.3
Difference		+29.3	-28.8	-19.4	+1.0	+3.4	+14.6
1967	655.8	471.9	12.1	48.9	19.4	75.3	24.3
n 1942-51 av.		432.2	44.7	69.6	18.2	83.4	7.7
Difference		+39.7	-32.6	-20.7	+1.2	-4.1	+16.6

Exhibit "B-1" (1)

Exhibit "B-2"

1968	715.4	519.8	32.0	51.4	18.6	85.8	26.8
∆ 1942-51 av.		470.8	48.7	75.5	19.8	90.0	8.4
Difference		+43.0	-16.7	-24.5	-1.2	-5.1	+18.4
1969	787.9	571.4	13.9	52.3	18.1	81.4	30.8
∆ 1942-51 av.		526.0	32.3	81.6	21.3	92.7	9.1
Difference		+45.4	-18.4	-29.3	-3.2	-46.3	+21.7
1970	788.4	609.2	13.9	51.2	18.6	67.9	37.5
∆ 1942-51 av.		525.1	34.4	84.8	22.1	101.6	9.4
Difference		+83.1	-20.5	-33.6	-3.5	-33.7	+28.1
1971	868.1	600.3	14.1	53.4	20.1	77.2	42.8
∆ 1942-51 av.		585.5	58.4	91.1	23.8	109.2	10.1
Difference		+84.8	-44.1	-37.7	-3.7	-33.0	+32.7
1972	951.9	715.1	18.0	58.1	21.5	90.1	47.0
∆ 1942-51 av.		637.3	64.8	101.1	28.4	121.1	11.1
Difference		+187.8	-46.8	-43.0	-4.9	-29.0	+71.8
1973	1065.6	799.3	32.0	68.4	21.6	99.1	53.1
∆ 1942-51 av.		701.6	72.5	113.1	29.5	135.6	12.6
Difference		+97.6	-40.5	-32.7	-7.9	-36.3	+13.7
1974	1136.0	875.8	31.4	68.9	21.4	83.6	49.0
∆ 1942-51 av.		748.6	77.4	120.6	31.5	144.5	13.4
Difference		+127.2	-53.0	-59.7	-10.1	-60.9	-95.6
1975	1215.0	931.1	23.5	63.5	22.4	96.9	78.6
∆ 1942-51 av.		800.7	82.7	129.0	33.7	156.5	14.3
Difference		+130.4	-59.2	-65.5	-11.3	-58.6	+64.3
1976	1389.8	1037.8	18.3	71.0	23.1	126.8	93.8
∆ 1942-51 av.		896.1	92.6	144.4	37.7	173.0	16.0
Difference		+141.7	-74.3	-73.4	-15.6	-46.2	+77.8
1977	1535.8	1136.9	19.5	86.3	24.7	150.0	4.0
∆ 1942-51 av.		1005.5	103.9	162.0	42.3	196.1	18.0
Difference		+131.4	-84.3	-81.5	-17.6	-46.1	-14.0
1978	1784.3	1304.5	27.2	86.1	25.9	167.7	149.5
∆ 1942-51 av.		1136.3	117.4	183.1	47.8	219.3	20.3
Difference		+168.2	-90.2	-96.8	-21.9	-51.6	+80.2
1979	1934.2	1469.1	32.1	98.0	26.9	178.1	129.2
∆ 1942-51 av.		1268.0	131.0	204.0	53.3	244.8	22.7
Difference		+191.1	-98.9	-106.0	-26.4	-66.7	+106.5
TOTAL DOLLAR DIFFERENCE 1952-1979		+1700.2	-972.4	-842.6	-95.8	-513.9	+220.5

Exhibit "B" (2)

V. E. Bassiter, Sr. Analyst

	Total National Income	Compensation of Employees	Income of farm proprietors	Total income unincorporated businesses & professionals	Rental Income of Persons	Total Corporate profits before taxes	Net interest
Annual Average National Income 1942-1951	198.04	130.49	13.49	21.04	5.49	25.20	2.34
Percent of National Income By Sectors 1942-1951	100%	65.91%	6.81%	10.62%	2.77%	12.72%	1.18

Exhibit "C"

"THE REAL STORY"
BILLIONS OF DOLLARS
PERCENTAGE CHANGE IN SHARE OF NATIONAL INCOME DOLLAR EARNED BY EACH SECTOR OF THE ECONOMY
1952 THROUGH 1979 A COMPARISON WITH 1947-49 AVERAGE

U.S. Economy in BALANCE at 100% of PARITY	Total National Income	Compensation of Employees	Total Income of Unincorporated Businesses	Income of Farm Proprietors	Rental Income of Persons	Total Corporate Profits	Net Interest Income
1949	$217.7	$160.8	$22.7	$12.9	$8.3	$28.2	$4.8
1948	223.5	141.0	22.4	17.8	7.3	30.8	4.2
1947	198.7	128.9	19.9	15.5	6.5	23.6	3.8
1947-49 Average	$213.1	$136.8	$21.7	$15.4	$7.4	$27.5	$4.2
% of Total 1947-49	100%	64.2%	10.2%	7.2%	3.5%	12.9%	2.0%
% of Total 1952	100%	66.73%	9.20%	5.23%	3.49%	12.90%	2.42%
% of Total 1954	100%	66.78%	9.21%	4.20%	3.61%	11.16%	3.01%
% of Total 1956	100%	69.12%	9.15%	3.30%	3.10%	11.97%	3.33%
% of Total 1958	100%	69.97%	8.84%	3.67%	3.32%	10.12%	4.02%
% of Total 1960	100%	70.83%	8.25%	2.89%	2.91%	10.73%	4.36%
% of Total 1962	100%	71.17%	8.04%	2.93%	2.64%	10.35%	4.84%
% of Total 1964	100%	70.94%	7.72%	2.49%	2.43%	11.18%	5.26%
% of Total 1966	100%	70.60%	7.51%	2.19%	2.93%	13.26%	3.52%
% of Total 1968	100%	72.76%	7.19%	1.68%	2.60%	12.01%	3.75%
% of Total 1970	100%	76.30%	6.41%	1.74%	2.33%	8.50%	4.70%
% of Total 1972	100%	75.12%	6.10%	1.89%	2.26%	9.68%	4.94%
% of Total 1973	100%	75.07%	5.67%	3.01%	2.03%	9.31%	4.91%
% of Total 1974	100%	77.12%	5.36%	2.27%	1.85%	7.47%	5.91%
% of Total 1975	100%	76.91%	5.41%	2.06%	1.85%	7.59%	6.18%
% of Total 1976	100%	76.26%	5.48%	1.69%	1.74%	8.73%	6.08%
% of Total 1977	100%	76.12%	5.25%	1.33%	1.48%	9.52%	6.30%
% of Total 1978	100%	75.65%	5.17%	1.61%	1.50%	9.73%	6.35%
% of Total 1979	100%	75.72%	5.00%	1.69%	1.41%	9.33%	6.77%
1947-49 Average	100%	64.2%	10.2%	7.2%	3.5%	12.9%	2.0%
1979	100%	75.8%	5.0%	1.7%	1.4%	9.3%	6.8%
Percent of Change From 1947-49 to 1979		+18.1%	-51.0%	-76.4%	-60.0%	-27.9%	+240.0%

1. Estimate

W.E. Roesler, Sr. Analyst

An analysis of significant asset and liability totals of all commercial banks in the United States* in ratio to total bank deposits, converted to percentages to illustrate the relative liquidity of the commercial banks from 1914 through 1979. Source: Federal Reserve Bank - Banking and Monetary Statistics and Bulletin.

[As a percentage of total deposits . .] "ALL MEMBER BANKS" .

DATE	LOANS	U.S. TREAS. BONDS	OTHER BONDS	TOTAL LOANS & INVEST.	CASH	DEPOSITS "BILLIONS"	BORROW-INGS MILLIONS	BORROW-ING % EQUITY	EQUITY CAPITAL	EQUITY CAP % OF DEPOSITS	BORROW-INGS % OF DEP.	NUMBER OF BANKS
12/31/1914	77.3	9.0	15.0	101.3	6.0	8300.0	133.0	.06	2983.0	25.2	.02	7582
12/31/1915	71.7	7.0	16.1	94.7		10836.0	99.0	.05	7126.0	20.0	.01	7631
12/31/1916	68.8	5.5	15.0	89.1		13961.0	95.0	.04	3231.0	17.6	.01	7634
12/31/1917	65.0	9.6	16.1	90.5		18998.0	783.0	.28	2967.0	15.0	.04	7987
12/31/1918	66.3	16.2	13.6	96.0		21457.0	1379.0	.50	3270.0	15.0	.06	8097
12/31/1919	60.6	12.7	12.7	84.9		26139.0	2347.0	.66	3542.0	13.6	.09	9355
12/29/1920	60.7	11.0	15.7	105.4		24720.0	2836.0	.74	4120.0	17.0	.13	9806
12/31/1921	74.8	11.1	15.1	101.0		23247.0	1364.0	.33	4093.0	17.6	.06	9279
12/28/1922	65.7	14.0	14.3	93.7		27288.0	737.0	.15	4364.0	16.0	.03	9859
12/31/1923	66.1	12.6	14.2	91.9		28507.0	808.0	.18	4378.0	15.4	.03	9774
12/31/1924	61.6	12.0	15.2	88.8		32304.0	648.0	.09	4537.0	14.0	.01	9587
12/31/1925	68.2	11.0	15.1	94.2		34230.0	740.0	.16	4678.0	13.8	.02	9499
12/31/1926	65.6	9.8	16.2	91.6		34528.0	792.0	.15	4841.0	14.1	.02	9350
12/31/1927	65.2	10.9	17.4	93.4		36857.0	636.0	.13	5041.0	14.6	.02	9134
12/31/1928	64.4	11.0	15.9	91.3		38867.0	1756.0	.33	5090.0	15.1	.05	8837
12/31/1929	68.9	10.2	15.6	94.8		37801.0	1015.0	.19	5709.0	15.1	.03	8527
12/31/1930	64.5	11.1	18.5	94.1		37029.0	513.0	.08	6593.0	17.8	.01	8052
12/31/1931	62.7	17.3	19.5	99.5		30771.0	921.0	.15	5899.0	19.4	.03	7745
12/31/1932	53.0	22.6	20.0	95.7		25836.0	592.0	.11	5409.0	18.9	.02	6911
12/31/1933	47.2	26.7	19.9	93.8		27167.0	155.0	.03	4962.0		.01	6442
12/31/1934	35.5	32.7	19.4	88.6		31648.0	19.0	.00	4954.0	18.9	.00	6442
12/31/1935	31.7	31.9	16.6	78.0		36450.0	14.0	.00	5145.0	13.8	.00	6387
12/31/1936	31.2	31.6	16.2	77.0		42885.0	17.0	.00	5275.0	10.3	.00	6376
12/31/1937	34.2	30.3	13.3	77.4		40839.0	16.0	.00	5371.0	13.2	.00	6341
12/31/1938	30.5	38.5	13.0	74.0		[illegible]63.0	6.0	.00	5424.0	12.5	.00	6330
12/31/1939	28.3	39.0	11.5	69.8		45340.0	3.0	.00	5527.0	11.7	.00	6362
12/31/1940	27.2	38.0	10.6	65.8		50430.0	3.0	.00	5830.0	10.1	.00	6406

[As a percentage of total deposits . . . . .] "ALL COMMERCIAL" BANKS

12/31/1941	38.4	36.6	10.1	71.2	37.3	77283.0	23.0		7173.0	10.1	.03	14278
12/31/1942	21.6	46.4	7.6	75.6	31.5	89135.0	13.0		7330.0	8.2	.01	14130
12/31/1943	19.1	56.5	6.8	80.3	28.1	109923.0	69.0		7719.0	7.3	.05	14034
12/31/1944	16.9	60.6	6.9	82.4	23.0	128072.0	123.0	1.5	8265.0	6.5	.10	13902
12/31/1945	17.4	60.3	6.9	82.6	23.7	150227.0	219.0	2.5	8950.0	6.0	.15	14031
12/31/1946	22.4	53.8	5.5	81.7	24.6	159033.0	45.0		9577.0	6.9	.03	14084
12/31/1947	25.4	48.0	6.3	80.7	25.0	1481103.0	83.0		10059.0	7.0	.05	14165
12/31/1948	29.7	43.0	6.4	80.0	27.0	1429443.0	54.0		10480.0	9.3	.04	14171
12/31/1949	29.6	46.2	7.0	82.9	24.6	1457748.0	28.0		10967.0	7.6	.01	14156
12/30/1950	33.7	40.0	8.0	81.6	25.0	1552660.0	90.0		11990.0	7.5	.06	14121
12/31/1951	39.0	37.3	8.1	80.5	27.1	1644840.0	34.0		12216.0	7.4	.02	14089
12/31/1952	37.1	38.4	8.2	81.9	25.8	1729311.0	188.0	1.5	12888.0	7.5	.11	14046
12/31/1953	38.3	35.9	8.3	82.5	25.4	1757102.0	82.0		13059.0	7.7	.04	13981
12/31/1954	38.2	37.3	8.8	84.4	23.8	1867757.0	31.0		14579.0	7.9	.02	13849
12/31/1955	43.0	32.0	8.7	83.7	24.4	1927264.0	359.0	1.9	15302.0	8.0	.18	13716
12/31/1956	45.7	29.6	8.2	83.6	24.7	1977315.0	75.0		16307.0	8.3	.04	13640
12/31/1957	46.6	28.9	8.9	84.5	24.1	2013376.0	77.0		17360.0	8.6	.04	13564
12/31/1958	45.5	30.7	9.5	85.7	22.7	2160017.0	73.0		18440.0	8.5	.03	13501
12/31/1959	50.4	26.8	9.3	85.7	22.5	2199983.0	675.0	3.1	19556.0	8.9	.30	13474
12/31/1960	51.2	26.5	9.1	86.8	22.7	2229843.0	163.0		20986.0	9.1	.07	13472
12/31/1961	50.2	28.8	9.6	88.6	22.7	2486600.0	471.0	2.1	22459.0	9.0	.17	13432
12/28/1962	53.5	25.3	11.2	90.0	20.6	2621222.0	3627.0	15.1	24094.0	10.0	1.40	13432
12/31/1963	56.7	23.0	12.3	92.4	18.9	2761200.0	2664.0	10.3	25867.0	9.3	1.30	13570
12/31/1964	57.2	20.5	12.6	90.3	19.7	2837170.0	2579.0	9.6	27796.0	9.1	.90	13767
12/31/1965	60.7	17.9	13.5	92.1	18.3	3014438.0	6472.0	24.0	30771.0	9.1	1.40	13904
12/31/1966	61.6	15.9	13.0	91.4	19.6	3022267.0	4869.0	18.2	33954.0	9.1	1.40	13767
12/31/1967	59.7	15.8	15.6	91.1	19.7	3215008.0	5777.0	16.6	34384.0	8.7	1.50	13727
12/31/1968	60.1	14.9	16.5	92.5	19.3	4340023.0	8899.0	24.1	37006.0	8.5	2.10	13578
12/31/1969	67.0	12.8	16.4	96.8	19.7	4335677.0	19360.0	45.9	39978.0	9.2	4.20	13444
12/31/1970	65.2	12.8	17.9	95.9	19.6	4489940.0	19075.0	49.1	42958.0	9.9	4.00	13446
12/31/1971	68.5	12.1	19.5	96.0	18.8	537946.0	25912.0	56.9	47211.0	8.8	4.80	13703
12/31/1972	67.3	10.9	19.0	97.2	18.4	614027.0	38883.0	77.3	52458.0	8.6	6.20	13877
12/31/1973	72.6	8.6	18.2	100.3	17.4	681047.0	58994.0	100.5	58128.0	8.5	8.70	14111
12/31/1974	73.4	7.3	18.0	99.5	17.1	747863.0	58369.0	91.7	63401.0	8.5	7.80	14465
12/31/1975	69.5	10.7	18.5	98.7	17.0	796252.0	64274.0	87.1	69174.0	8.6	7.75	14633
12/31/1976	71.9	12.2	17.9	101.3	16.2	838200.0	80700.0	102.7	78100.0	9.3	9.60	14671
12/31/1977	72.4	10.7	16.9	100.0	16.0	939600.0	98200.0	117.1	89000.0	9.4	10.23	14717
12/31/1978	77.6	9.3	17.2	104.5	17.1	993100.0	133000.0	152.6	97300.0	9.6	13.41	14719
12/31/1979	83.5	9.0	18.5	110.9	14.2	1038000.0	143100.0	152.8	99693.0	9.6	13.90	14695

Exhibit "D"

Exhibit "E"

ALL COMMERCIAL BANKS, UNITED STATES - AN HISTORIC COMPARISON OF PRINCIPAL ASSETS AND LIABILITIES
(IN RATIO TO TOTAL DEPOSITS)

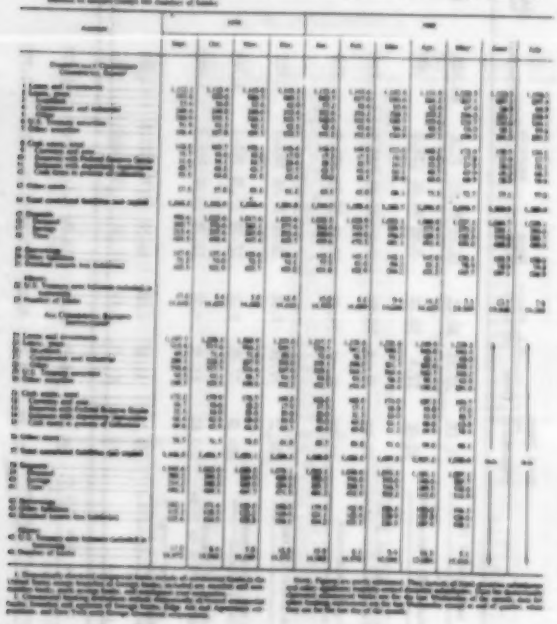
Date	Total loans and investments	Loans	U.S. Treasury bonds	Other bonds	Cash	Deposits (billions)	*Borrowings	Capital (to total dep.)
Dec. 31, 1941: The beginning of World War II. The inception of 90 percent of parity farm price supports	71.2%	30.5%	30.6%	10.1%	37.2%	71.2	40.003	10.0%
Dec. 31, 1946: World War II declared officially ended. Full Employment Act passed by Congress	82.0%	22.4	53.8%	5.8%	24.0%	139.0	.05	6.9%
Dec. 31, 1952: President Eisenhower elected. Signal for the end of 90 percent of parity support prices on farm commodities	81.9%	37.1%	36.6%	8.2%	25.8%	172.9	.015	7.5%
Dec. 31, 1968: The 1st "money-crunch." The beginning of deliberate Federal budget deficits to stimulate the private economy U.S. closed the Gold Window, Aug 15, 1971	92.5%	61.1%	14.9%	16.5%	19.3%	434.0	.240	8.5%
Dec. 31, 1973: The beginning of the worst recession since the depression of the 1930's	100.3%	72.6%	8.6%	19.2%	17.4%	681.8	1.015	8.5%
Dec. 31, 1978: A mile-marker on the banking system and the general economy approaches new record low level of financial liquidity	104.5%	77.6%	9.3%	17.2%	17.3%	993.1	1.524	8.8%
Sept.26,1979: New, unprecedented historically low-level of liquidity (high loans plus investments in ratio to deposits) from 1914 to 1979-	111.6%	83.7%	9.2%	18.7%	14.9%	996.6	1.652	8.9%
Oct. 21,1979: 23 days after the October 6th, 1979 announced change in Federal Reserve monetary policy. Is it a 'turn-a-round' or a temporary reaction?	109.2%	81.9%	8.9%	18.3%	15.7%	1,023.6	1.652	8.8%
July 30th, 1980 - Latest available statistics	110.3%	81.7%	9.4%	18.3%	15.8%	1,050.1	1.727	8.9%
Dec. 29, 1929: Previous historically low-level of liquidity from 1914 to 1978	105.4%	80.7%	11.0%	13.7%	N.A.	24.2	1.526	20.1%
June 30, 1929: The level of liquidity in the commercial banking system 4 mo. before Black Tuesday, Oct. 29, 1929	101.7%	72.0%	9.4%	18.3%	15.8%	58.3	1.790	18.7%

*for each dollar of Equity Capital

Exhibit [illegible]

A46 Domestic Financial Statistics □ August 1980

[illegible] ASSETS AND LIABILITIES OF COMMERCIAL BANKING INSTITUTIONS [illegible]



	1979 Sept.	Oct.	Nov.	Dec.	1980 Jan.	Feb.	Mar.	Apr.	May	June	July	1929 June 30.
Loans and Invest. as a % of Deposits	111.6%	109.3	109.9	110.9	110.9	111.2	110.7	108.7	108.8	110.4	110.3	101.7%
Loans (only) as % of Deposits	83.7%	82.0	82.2	81.5	83.1	83.3	82.6	81.3	81.1	82.0	81.7	72.0%
U.S.Treas. Sec. as a % of Dep.	9.2%	8.9	9.1	9.0	9.0	9.1	9.1	8.8	8.9	9.1	9.3	9.4%
Other Securities as a % of Dep.	18.7%	18.4	18.6	18.5	18.7	18.8	18.8	18.6	18.9	19.2	19.4	18.3%
Cash Assets as a % of Dep.	14.9%	15.7	15.5	16.2	16.5	16.6	16.9	15.9	16.3	16.4	16.7	15.8%
Borrowings as a % of Dep.	14.8%	13.4	13.3	13.6	14.0	14.1	13.8	13.5	14.6	14.6	15.1	3.5%

Exhibit "G"

BILLIONS OF DOLLARS

PROFILE OF THE DEPRESSION, 1929 to 1932

	Total National Income	Compensation of Employees	Total Income of Unincorporated Businesses & Professionals	Income of FARMS proprietors	Rental Income of Persons	Total Corporate profits before taxes	Net Interest Income
1929 National Income	$ 87.8	$ 51.1	$ 8.8	$ 6.0	$ 5.4	$ 10.1	$ 6.4
1932 National Income	$ 42.5	$ 31.1	$ 3.4	$ 1.9	$ 2.7	$- 2.0	$ 5.4
Dollar Loss - 1929-1932	$-45.3	$-20.0	$-5.4	$-4.1	$-2.7	$-12.1	$-1.0
Percentage Loss 1929-32	-51.6%	-39.1%	-61.4%	-68.3%	-50.0%	-120.0%	-15.6%

PROFILE OF A HYPOTHETICAL DEPRESSION, 1979 to 1982

1979 National Income	$1,919.7	$1,453.5	$ 97.6	$ 32.3	$ 27.0	$179.1	$130.0
1981 Hypothetical National Income in ratio to 1929-32 decline	$ 929.1	$ 874.2	$ 37.7	$ 10.3	$ 13.5	$-35.8	$109.7
Hypothetical Dollar Loss 1979 to 1982	$-990.6	$- 579.3	$-59.9	$-22.2	$-13.5	$-214.9	$-20.3
Compared to Dollar Loss in 1929 to 1932 Depression	$- 45.3	$- 20.0	$- 5.4	$- 4.1	$- 2.7	$- 12.1	$- 1.0

THIS EXAMPLE ASSUMES ANOTHER DEPRESSION WHERE ALL SECTORS DECLINE FROM 1979 to 1982 IN DIRECT RATIO TO THE DECLINE IN EACH SECTOR FROM 1929 to 1932.

V.E. Rossiter, Sr.
Analyst

What is Parity and why do we keep hearing about it?

(A summary of GAO's report entitled: An Assessment of Parity As A Tool For Formulating And Evaluating Agricultural Policy.

Parity is a difficult concept to explain. When used alone the term is often thought to be synonymous with "equality" or "fair exchange". In agriculture the term "Parity" refers to the price which will give agricultural commodities the same purchasing power in terms of goods and services farmers buy that the commodities had in a specified base period (1910-14).

While much confusion exists as to the meaning and usefulness of the concept, price parity has become a rallying point for many of American farmers seeking a "fair shake" for the agricultural economy. While the concept was developed nearly 50 years ago, the Congress as well as many farmers and farm support groups still rely on it as being a barometer for measuring the agricultural sectors economic status in the marketplace. On the other hand, many economists do not believe that parity is a useful tool to measure the farm sectors well-being. Their disagreement stems from the point of view that there should not be any fixed relationships between prices paid by farmers for farm inputs on prices received by farmers from the sale of their commodities. They believe that the relative prices of all goods should constantly change over time as demand and supply change due to such influences as changing income levels and technologies.

However, regardless of these philosophical differences legislation has required use of price support programs to provide the Nation's farmer with some degree of economic security by attempting to minimize hardships on the farm sector when price depressing surpluses develop. In upholding the agricultural sector it is clear that the Congress considered factors other than pure economics. They recognized farming as a unique business because it produces products vital to human existence and the importance of a surplus crop strategy. Thus Congress has encouraged a high level of agricultural production, the family farm and a competitive agricultural sector. Agricultural sector's ability to withstand economic buffeting is a starting point in GAO's discussion of parity because the essence of U.S. farm policy since the 1930s has been to provide a certain level of economic security to the farm sector relative to other sectors through a parity formula.

The importance of the farm sector and its interrelationship with other sectors was recognized after World War I when farm prices plunged, farm incomes declined, and farmers cut back on purchases of all types of manufactured goods. Farm equipment producers were particularly hard hit and the idea of strengthening the farm economy was first conceived and fostered by industrialists who depended on farm purchases for their own livelihood. During the 1930s, a parity formula was enacted by the Congress to improve farm income so that the farm sector could buy goods and services from other sectors.

The rationale for this encouragement appeared sound, since historically a nations economic success can be traced to how far that nation has risen above providing the basic food and other needs of its people.

GAO examined the parity concept and parity formula and assessed how well parity tracked the well-being of the farm sector, and arrived at the following conclusions: Parity by itself does not adequately reflect total farm sector well-being, nor total personal income of farm families nor increased farm assets and equities. Indicators of the farm sectors total well-being are influenced by factors other than at the marketplace, and it is questionable whether the parity ratio was designed to measure such indicators. However, the parity ratio appears to be useful as an indicator of measuring economic well-being of the farm sector in the marketplace.

Changes in the parity ratio have tracked (1) structural changes (as the ratio has fallen so have the number of farms); (2) changes in farmer's margins on a per unit basis; and (3) net farm income from marketing receipts.

However, GAO was not able to definitively and holistically assess the impacts of parity-level price supports on world trade and economic development, on the general economy, the farm sector, rural communities, and consumers because current evaluation techniques primarily measure short-term economic impacts, and do not consider secondary impacts such as impacts on rural viability, long-term impacts on retail prices, etc. There presently is not a good framework for evaluating the secondary impacts of such policy options.

In recent years Congress has become increasingly concerned about the structure of the American farm system. In the Food and Agricultural Act of 1977 (P.L. 95-113, September 29, 1977) Congress stated that it "...reaffirms the historical policy of the United States to foster and encourage the family farm system of agriculture in this country. Congress firmly believes that the maintenance of the family farm system of agriculture is essential to the social well-being of the Nation and the competitive production of food and fiber products." It also stated that Congress believes that "any significant expansion of non-family owned large-scale corporate farming enterprises will be detrimental to national welfare."

GAO also found that historically government mandated farm programs have had too narrow of a focus to achieve congressional intent. These programs have not imputed social well-being and national welfare considerations, but have dealt primarily with managing overall farm surplus capacity.

In an attempt to identify components of social well-being and national welfare GAO found that traditional studies on farm program changes and their effect on the agriculture structure and farm well-being lacked analysis of effects beyond farm boundaries. That is, how would these changes affect our nations general welfare and social well-being?

Therefore we focused our efforts on laying the groundwork for a more comprehensive evaluation. This was done by laying out the extent of the farm problem, the underlying reasons, alternative solutions, and a proposed conceptual framework for measuring and evaluating alternative solutions.

Today, we generally hear about three parity measures as it relates to agriculture: Parity prices, parity income, and the parity ratio. When farmers ask for 100 percent parity, they mean 100 percent of parity prices. When policymakers say that farm commodities buy only 60 percent of what they did in 1910-14, they are usually referring to the parity ratio. When others say that farm incomes must be maintained at a parity level, they are probably talking about implementing support programs based on parity income.

It is apparent that parity, as it is used by different people, can refer to many different things depending on which element or spin off of the original formula is being used. The essential ingredient of all of these parity terms is the same, however. That is, parity was expected to measure the economic well-being of the farm sector relative to other sectors.

The Parity Formula Development

The mechanism for attempting to achieve agricultural parity (basically a relationship between the cost of producing a given commodity and the income derived from its sale) has been rivised by Congress numerous times, it originated at the time of the slump in farm prices during the 1920's prior to the Great Depression and was first enacted into law in 1933.

Basically, agricultural parity can be defined as the equivalence between farmers current purchasing power and their purchasing power at a selected base period. By law this base period has been set as 1910-14.

The Department of Agriculture prepared two indexes: one of prices received by farmers and another of prices paid by farmers. The parity ratio which developed is in its simplest format a division of the index of prices received by farmers by the index of prices paid by farmers. The base period 1910-14 was set to equal 100.

This means that when farm prices are relatively lower than the prices paid index the parity ratio is below 100. To illustrate during the depressionary years of 1930-34 the average of the prices received index was 90 and the prices paid index was 135 thus the parity ratio was $\frac{90}{135} \times 100$, or 67.

During the period when farm prices were actively supported (the World War II and postwar periods of 1945-49) the average prices received index was 250, the prices paid index was 230 thus making the parity ratio $\frac{250}{230} \times 100$ or 109.

More recently, August 1980, the prices received index was 641 and prices paid index was 964 thus the parity ratio was $\frac{641}{964} \times 100 = 66$.

The above illustration of the parity formula was designed to show the relative well-being of the farmer. The composite parity ratio was formed by the aggregation of similar calculation for specific individual crops. The idea

behind the calculation was to show the level of purchasing power the farm sector has at on a particular date relative to the rest of the economy in comparison to the 1910-14 base period. In other words the parity ratio is a measure of agriculture's terms of trade. The higher the ratio --the more favorable the terms of trade--the more the farm sector gets for a unit of what it trades in exchange.

However, despite the historic importance and success of the U.S. agricultural sector, during the last third of a century a silent yet revolutionary transition has taken place in American agriculture that has resulted in millions of family farmers going out of business.

One reason GAO was asked to study parity is that the economic strength of the farm sector today is suspect. Farm concentration over 3 decades has had the beneficial impact of increased productivity and low consumer prices but too much concentration increases risks and reduces the ability of the farm system to adapt to changes.

Although the self-sufficient family farm has vanished, farms today are still primarily operated by a farming family. The family-run farm is generally perceived to be financially strong, especially for landowners as inflation increases farm net worth. However, the cash flow of these farmers, and especially the new farmer has fluctuated considerably. While farm prices fell to depression levels during the 1977 then rose some in the two following years, 1980 net farm income adjusted for inflation could well be the lowest since the 1930's. For many years, trends in U.S. Agriculture have been toward greater technological advances, declining farm margins, declining numbers of farms and increasingly larger farms. Fluctuation in market prices coupled with the effects of the cost-price squeeze caused by inflation and rising energy costs have undermined the resilience of the farm structure and have changed the farm sector dramatically since the end of World War II.

For example:

--2,000 farms per week have gone out of business since 1950.

--Average farm size increased from 175 acres in 1940 to 450 in 1971.

--The nations largest 2 percent of all farms control over 37 percent of the sales.

--Non-farmers may own as much as 50 percent of the farmland.

--Of the people who own farm and ranchland, only 25 percent are classified by the Department of Agriculture as farmers.

These changes have occurred largely because of the declining margin between farm prices and farm costs. As farm margins narrowed, the number of farms declined and those remaining had to increase their farm size to maintain their relative economic position. As farmers scramble after more land, more equipment, and more off-farm employment to maintain living standards, millions of smaller volume producers were unable to withstand the drop in margins, were unable to relocate, and went out of business. Thousands of rural communities declined as the remaining farms grew larger and fewer.

The Nation has generally benefited from technological advances and growth in farm size, in that higher productivity has led to low and stable food prices. However, if these trends continue unabated, the secondary impacts may well be a loss of farm sector resiliency, a decline in rural viability, a cutback in efforts to conserve our fertile soil and less competion.

Ironically and what first appears to be contrary to economic theory, the decline in a farmers incomes caused by price-depressing surpluses has encouraged some individual farmers to get bigger in order to sell more units and offset the declines in net revenue (or actual purchasing power when adjusted for inflation) per unit of production. As the most aggressive farmers became larger othe farm families either left farming, sought increasingly morn off farm income and/or altered their production/marketing strategies.

GAO is of the opinion that the cash flow situation of farmers in general is worse than most realize. In fact the net income from marketing receipts in 1979 was less than half of the reported $31.1 billion total net income of farmer

While 't is true that farmer's total economic status can be more accurately measured by total net income per farm family than by income from farm operations alone, GAO feels that their finding that there is a high degree of correlation between the parity ratio and net farm income from marketing receipts adjusted for inflation is significant. While other measures of a farmer's economic status such a total family income, including government payments and non farm and non monetary income are important in assessing the farm sectors well-being, they tend to mask what GAO feels is the primary factor effecting the size and number of farms; that is, the continuing effects of the cost-price squeeze on farmers of all sizes.

The continual downward ratcheting affects of the cost-price squeeze on farm margins coupled with the overall general inflation of farm real estate values threatens the continued existence of the family farm system of owner operators as we currently know it.

In a recent report entitled: "An Assessment Of Parity As A Tool For Formulating And Evaluating Agricultural Policy" (CED-81-11, October 10, 1980) GAO has concluded that the parity ratio can be a useful barometer or indicator of the farm sectors general well-being derived from the marketplace.

According to their analysis changes in the parity ratio have tracked (1) structural changes (as the ratio has fallen so have the number of farms); (2) changes in farmers' margins on a per unit basis, and (3) total net farm income in constant dollars from marketing receipts.

GAO's findings that the parity ratio can be a useful indicator of economic justice in the marketplace is counter to much of the present criticism that the parity concept is archaic, static, and obsolete.

However, GAO is quick to add that parity does not adequately reflect total farm sector well-being, total personal income of farm families or increased farm assets and equities. Those indicators are influenced by factors that occur outside the market environment. Also parity is a broad national indicator which may or may not reflect an individual farmer's well-being.

GAO feels that part of the problem in assessing the usefulness of the parity price concept has been the lack of a broad based analytical framework to assess the outcome of farm policy on the structure of agriculture. GAO's assessment of farm policy led them to conclude that many factors should be integrated into policy decisions. Some of these factors are considered in setting policy today but not on a systematic or comprehensive basis. Sociology physical and institutional environment, technology and national security should be considered along with economic efficiency on a more systematic and comprehensive basis in formulating and assessing agricultural policies.

For copies of the GAO parity report contact either William Gahr or Ed Schaefer at the following address:

Food Analysis and Coordination Staff
Community and Economic Development Division
U.S. General Accounting Office
441 G St., NW
Washington, D.C. 20548

(202)275-5525

Ask for the following title: An Assessment of Parity As A Tool For Formulating And Evaluating Agricultural Policy (CED-81-11), October 10, 1980.

48-803 O - 80 - 7

best copy available

NDPC National Democratic Policy Committee

Lyndon H. LaRouche, Jr.
Chairman
Advisory Council
Warren Hamerman
Chairman
Ken Dallo
Executive Director
Barbara Boyd
Treasurer

Post Office Box 38 • Midtown Station, 333 W. 39th Street • New York, New York 10018 • (212) 697-4444

DATE: November 17, 1980

TO: Congressman Richard Nolan
Chairman, Subcommittee on Family Farms, Rural Development & Special Studies

FROM: Warren Hamerman
Chairman, National Democratic Policy Committee

SUBJECT: GAO Report: An Assessment of Parity as a Tool for Formulating and Evaluating Agricultural Policy (October 10, 1980)-- A Response

I am pleased to take this opportunity to submit a comment, on behalf of the National Democratic Policy Committee, on the recently released GAO report on parity.

The NDPC is committed to restoring profitability to American agriculture. That, in our view, is synonymous with adopting a parity policy for American agriculture. Contrary to the GAO's narrow interpretation, parity is not a "tool" -- it is a policy concept upon which our American System economy was based from the outset. By contrast with the British "free trade" doctrine, it is the government's responsibility to foster conditions of market stability whereby industry and agriculture are assured sufficient rates of profit to grow. Our forefathers referred to the policy as "protection" as the concept was developed by Benjamin Franklin, Alexander Hamilton and Matthew Carey.

Rather than take issue with the numerous factual errors, baseless assertions (such as the absurd claim that it is "impossible" to evaluate the so-called secondary effects of parity pricing on the economy), and other distortions in the report, we think it more useful by way of response to set forth a positive statement outlining the necessary parity policy for American agriculture.

In the following we present excerpts from a statement by NDPC Advisory Council Chairman Lyndon H. LaRouche, Jr. Mr. LaRouche is a prominent economist and a former candidate for the 1980 Democratic presidential nomination. Mr. LaRouche and his associates are currently at work on the indicated project, using tools associated with the LaRouche-Riemann econometric model to develop the required parity policy package for implementation.

THE NECESSITY FOR A NEW CALCULATION OF AGRICULTURAL "PARITY"
by Lyndon H. LaRouche, Jr.
June, 1980

During recent months, I have had repeated opportunities for in-depth review of the present crisis in U.S. agriculture with representatives of owner-operated farms -- the farmers who are the backbone of our nation's unequaled accomplishments in agricultural productivity.

These discussions have centered around two categories of problems. The first category is the problems of winning the non-farmer constituencies of the nation to support of a sensible national agricultural policy.

This discussion has been aided by the fact that I, unlike other candidates, know what agricultural parity means: the costs of agricultural production plus some fair rate of gross profit to cover the living expenses of the farmer and provide margins for reinvestment of profits in productivity improvements and necessary growth of production.

Ronald Reagan, for instance, certainly does not even suspect, unless he has been given a recent crash briefing on the matter, that the United States presently has no truly accurate measure of proper parity prices for agricultural products. Although public and private institutions have workable, accurate estimates of the standard-cost component of parity price, the calculation of the proper rate of gross profit remains a disputed point.

What is the proper rate of gross profit for the various categories of agricultural product? This is the question which remains to be settled for purposes of policy-making. That is the problem I have committed myself to solve, using the computerized LaRouche-Riemann "model" to arrive at the proper set of values.

The long-standing political problem respecting agricultural parity prices centers around the unwarranted widespread public suspicion that parity-support programs represent some sort of welfare handout to farmers at taxpayers' expense. The general public, of which about 96 percent are non-farmers, has little or no perception that unless parity prices are maintained, it is they, the general public, who will suffer most, through loss of a stable supply of food for their dinner tables.

I should add that this is a problem involving not only our domestic economy, but involves a most crucial part of our nation's foreign policy interests. There is a hungry world out there, with many nations of the world already in the genocidal cycle of famine and epidemic. We are headed towards 6-billion person population levels rapidly. Not only must U.S. foreign policy interests reckon with matters of U.S. agricultural exports, but with the greater problem of fostering adequate levels of food production among our treaty partner nations of the developed sector.

Recent Patterns Leading into the Present Farm Crisis

For about 96 percent of the American people, the reality of agriculture is buried under great heaps of "well-known truths" which are chiefly myths or even outright lies against our farmers.

For some years, the American food producer has been selling his product at prices which, from year to year, have averaged out at considerably less than the calculated parity values. When farmer product is sold at a price which is more than slightly below such parity values, the difference between the price received and the cost of production must come out of the capital of agriculture. This takes the form of depletion of improvements in land, decay of agricultural equipment, and so forth.

The reason many farmers have avoided bankruptcy as long as they have is that until recently agriculture enjoyed the availability of significant volumes of credit, some at comparatively favorable interest rates. What the farmer did under

these circumstances was to borrow capital to replace the invested capital he had lost by way of less-than-parity prices. The pile-up of agricultural debt that resulted was covered on the accounting ledgers of the lenders by a spiral of agricultural land prices.

The fiction in these land prices is exposed by the fact that no farmer could buy farmland at such prices for the purpose of agricultural production. In other words, this inflation in land prices meant that the financial rent on that land far exceeded the income of production using that land.

So, all the years farmers were piling up debts to cover the depletion of their capital by less-than-parity prices, a disaster was being built into American agriculture -- whenever the supply of credit dried out, or whenever some drastic cut in farmers' income triggered the spiral in debt-equity ratios.

Then came President Jimmy Carter. President Carter's administration participated in rigging the overthrow of the Shah of Iran. Although the net result of the cut in Iranian oil production has turned out to be a glut in world market oil supplies, the London petroleum-marketing cartel used the pretext of the Khomeini coup d'etat to double their petroleum prices, and the Carter administration rigged an artificial petroleum price crisis in the U.S. in direct collusion with the London petroleum-marketing companies.

This swindle, which Carter aided as part of his "energy policy," hit agriculture severely. Agriculture is extremely energy-intensive in terms of such items as fertilizers and fuels, and also directly and indirectly extremely energy-price sensitive.

Then, Carter and Federal Reserve Chairman Paul A. Volcker conspired to bring on a credit crunch and the first state of an actual depression with the mis-labeled "anti-inflation" package of last October. Although Volcker has formally reversed the new round of interest-rate hikes introduced by Carter March 14, the effect of that short-term leap in interest rates was to wreck the U.S. and world credit systems to the point that once interest rates began to be lowered, permanent damage had been done to the credit structure.

Now, the farmer is forced to turn everything salable into cash for liquidity, under pressure from the banks. Farmers trapped in "prime-plus" financial contracts are suffering a massive loss. Forced dumping of farm products at near-disaster prices drives prices received by farmers ever lower. Pork, beef, and so forth are now being sold at prices generally way below the cost of production.

Admittedly, there is an additional aspect to the problem. When the owner-operator farmer is forced to dump his product, it is the financially connected major grain and other farm product oligopolies that buy up the farmer's product at low prices and resell that product under circumstances of significantly higher prevailing market price. The farmer lacks the credit-resources to hold his own product inventory to supply final demand.

If the farmer is driven out of business, as a growing number are going out of business this year, the next year will see a shortage of food production, and substantially higher prices. This rise in food prices will then spiral upward as financial syndicates move in to control an increasing portion of farm land still in production. The trend will then be toward raising agricultural prices to levels determined by the artificial valuation of debt-laden agricultural land.

To repeat the point stated earlier. What is at issue for the 96 percent non-farmer percentile of the citizenry is a loss of stable food supplies at stable prices.

We have stressed "owner-operator farmer," the mainstay of U.S. food production. It is that farmer, not the absentee-owner, who sometimes works up to 17 or 18 hours a day, several days in succession, to prevent vagaries of weather from destroying a harvest and such contingencies. It is the technological ingenuity of such owner-operator farmers, especially those operating large family or intrafamily farms with benefits of economies of scale, which effects the main part of the improvements in quality and economic productivity of the American System's agricultural miracles.

How Parity Ought to Work

Agriculture cannot work merely from the planting to the harvesting, one year at a time. A farmer produces economically by undertaking a program of production for each part of his output, a program involving investments in land-improvements, equipment and so forth, which must be averaged out over not less than a three-to-five-year period.

Therefore, to secure economic efficiency -- that is, to keep parity values as low as technology permits -- farmers must commit themselves to production programs for their farms based on fair foreknowledge of the market demand in quantities and average prices for forward running periods of between three to five years, allowing for marginal year-to-year adjustments.

In other words, to bring the required parity value down to the lowest sound price, we must work to create orderly markets for agricultural products, in both domestic and foreign markets over running three-to-five-year forward periods. Farmers can then produce according to reliably forecast demands. As long as we can buffer the excesses and shortages caused by weather and such with reasonable product inventories, the farmers can keep the food pipelines filled to any reasonably forecast food requirements at a stable average price for this volume of product.

Let it be clear that we are not hinting at some scheme for governmental de facto "collectivization" of the American farmer. It is the ingenuity and investment-risk of the owner-operator farmer which will work within a combination of orderly marketing and sound parity values to foster new technological improvements in agriculture by the best independent farmers. The benefits of competition among farmers will be fostered in that way.

The Profit Factor in Parity

When one asks, "What should a farmer's gross profit be?" the question, stated in that form, might be answered by almost any figure picked out of the air. That is the gist of the point I have been discussing with a number of leading farmers.

However, when we think of profit as the fund available for reinvestment in expansion and improvement of agriculture, any competent economist -- or farmer -- immediately smells out a better way to answer the question. At what rate of gross profit can beef herds be increased a given amount, dairy herds, grain production, and so forth and so on?

In other words, to determine what the proper gross profit component of parity values ought to be, we must work backwards from the desired quantity and quality of total output for the category of agricultural product under consideration. I ask the American citizen, "How much beef do you require for your dinner table in

1981, 1982, 1983?" At what parity value will the American beef-producer be able to supply that required volume?

In making this calculation, we must also take into account certain other considerations. Our objective should not be merely to increase the supply of food, but to promote technological improvements in quality and quantitative features of food production. This means increasing the capital-intensity of agriculture, which means permitting the farmer to accumulate savings adequate to make such increases in capital-intensity. These improvements in agricultural technology are key to controlling the price of food at the dinner table over the medium and long term.

Since the improvement of marginal land is more costly than maintenance of prime land, the tendency is for agricultural costs and prices to rise, unless costs are kept down by increased efficiencies of the sort which can be realized only through capital-intensive, energy-consuming forms of technological improvements. Therefore, a certain rate of net profit on agricultural products is required even simply to maintain the volumes and productivity of production.

(If we, then, examine what appears to be cheap food production in other nations from this same standpoint, we immediately note the following fact. What rate of net profit do those countries require to bring their productivities up to U.S. standards over periods ranging from ten to fifty years -- according to the relative backwardness of each such economy? This calculation proves that the required amount of unit net profit for food production in those countries brings the true cost of that food production up to approximately U.S. parity-values!)

It happens that there exists presently only one analytical method for considering both of these two requirements, quantity and technology, simultaneously to arrive at a reliable definite value for profit-ratios. That is the LaRouche-Riemann program of analysis. I have therefore initiated the work with my relevant collaborators to begin developing the package for determining the kinds of parity values required for the needs of the American System of agriculture.

"Deregulation"

The issue of "deregulation" is directly connected to the issue of agricultural parity prices. A system of regulation of air and truck service, like that which Carter and Kennedy connived to sabotage, is identical in principle to a system of agricultural parity prices.

There is no mystery concerning the sources of the insanity represented by air service and trucking deregulations and attempts to undercut the parity system. A lot of people who ought to have known better made damned fools of themselves in obscene ecstasies over the buzz-word "free enterprise." Promote the most anarchic forms of cannibalistic competition and, Milton Friedman insists, all our problems will be miraculously solved by Adam Smith's "invisible hand."

Will some people never learn? If the bankrupting of farmers in 1980 leads to spectacular price rises for food in 1981 and 1982 -- because of shortages -- the same foolish fellows who refuse to blame "Milton Friedman's free enterprise" for Aunt Susie's death in the budget-priced air crash will blame the high food prices on farmers' greed, and will no doubt propose smaller farms -- thus driving food prices much higher.

Free trade was invented by the British East India Company in the eighteenth century, and popularized by a Company propagandist, Adam Smith, in an effort to

defend the British policies against which the American Revolution was fought. Hence, loyal Americans with adequate memories always regard "free trade" as akin to treason.

If capitalist industries cut each others' profits near to the breakeven point or below through anarchic forms of competition, then the capitalists are so poor in terms of reinvestible profits that industry lives at the mercy of the financial parasites who control the channels of credit. Applied to agriculture, in such a system, it is not the cow which is milked so much as the farmer.

The American System, on which the achievements of this nation were based, is outlined in the laws on banking, credit and manufactures devised by Treasury Secretary Alexander Hamilton. The American System of Washington, Monroe, Adams, and Lincoln is "protectionist," providing market protection to productive industry and agriculture to maintain prices which ensure a fair profit and fair wage for those who produce in competitive quality and quantity. It is the entrepreneur who does a bit better who prospers more, and whose investments in better technology cause a persistent trend for his lowering of prices without lowering the rate of production of reinvestible profits.

"Free enterprise" was created as a weapon by which powerful parasites could prevent competition from a growing class of innovative entrepreneurs. Milton Friedman is not capitalist, but like the slave-owning "free traders" of Lincoln's day, a fanatical feudalist, bent on destroying the American capitalist system with his poisonous doctrines.

MH/sb

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Alice M. Rivlin
Director

November 17, 1980

Honorable Richard Nolan
Chairman
Subcommittee on Family Farms, Rural
Development, and Special Studies
Committee on Agriculture
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Thank you for asking us to comment on the GAO report, An Assessment of Parity as a Tool for Formulating and Evaluating Agricultural Policy.

We strongly agree with the conclusion that parity prices do not reflect farm sector well-being. In fact, this follows directly from the definition of the concept. The parity price of wheat, for example, is the price that a bushel of wheat would have to sell for today to give farmers the same purchasing power they received from the sale of a bushel of wheat just prior to World War I. Parity prices do not measure changes in productivity, production costs, or market demand. Because of these limitations, the Congress has moved away from the use of parity prices in drafting food and agriculture legislation in recent years.

We support the GAO's recommendation calling for the use of a broad, wholistic framework in evaluating the consequences of public policy. Such an approach is important in agriculture because there are many different sizes and types of farms, cropping and conservation practices vary among geographical regions, and the availability and price of food and fiber products is very important to consumers. Because of the importance of identifying and understanding these trade-offs, the Congressional Budget Office generally presents the consequences of two or three alternative policy options in its food and agriculture studies.

Sincerely,

Alice M. Rivlin
Director

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

PARITY AS A TOOL IN FARM POLICYMAKING

Parity, economic and social, have long been part of the national goals of the United States. Both goals were included in the original documents that established our form of Government, the Constitution and the Bill of Rights.

In the legislative Acts that followed and today form our legal code, parity has often been stressed for some individual or group. Examples include: legislative Acts that guarantee equal access to education; equal opportunity in employment; minimum living standards regardless of income levels; or economic and social security for our later years.

The goal of parity has also been stressed in the legislative Acts that focus assistance on farmers and their families. Through Acts dating back to the 1930's, farmers have been offered the opportunity to use the power of government to gain a greater degree of equality with other sectors of the economy, especially those sectors from which they buy inputs for production and sell outputs from production.

Initially, the legislative approach taken was to assure farm prices that were fair relative to nonfarm prices. In this context, a parity price for a farm commodity was defined in the 1938 Agricultural Adjustment Act as that price which would give to the farm commodity a purchasing power relative to the articles farmers were buying that was equivalent to the purchasing power of that commodity in the base period, August 1909 to July 1914. Implicit in this statement was the belief that as prices of articles farmers buy increase, farm commodity prices should increase.

Two other parity concepts were also established. One was the parity ratio, a ratio that compares farm prices and nonfarm prices. A second was parity income, a concept that implies that farm families should earn incomes equal in purchasing power to nonfarm families. Both of these parity concepts have been included in legislative Acts since the 1930's.

The idea of providing farmers full price parity for their commodities, as implied in the original legislation passed in 1938, was never fully achieved. When the mathematical concept was utilized during World War II to set government-supported floors under specific commodity prices, the level chosen was 90% of parity. If a parity price for a commodity was $1 a bushel, the support price was set at ninety cents.

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*Statement submitted to the Subcommittee on Family Farms, Rural Development, and Special Studies, Committee on Agriculture, U.S. House of Representatives, by Leo Mayer, Senior Specialist for Agriculture, Congressional Research Service, Library of Congress, Washington, November 10, 1980.

Later, as the war ended, problems arose with 90 percent of parity prices. First, overseas markets weakened. Then, output per acre began to rise as farmers added new technological inputs. The result was overproduction. Government price guarantees at 90% of parity gave the more aggressive farm operators an incentive to expand production and depress markets with surplus commodities which the government was forced to buy to maintain the guaranteed price levels.

Gradually, as the surplus production problem intensified, Government supports were lowered and farm commodity prices slowly declined relative to nonfarm prices. The parity ratio, a measure of farm prices relative to nonfarm prices, slipped from 100 during the war years 1940-44, to 98 in the 1950-54 period, then to 79 between 1960-64 and 78 between 1970-74. In mid-1980, the parity ratio averaged around 65 which roughly meant that farm prices were 65 percent as high, relative to nonfarm prices, as in 1910-14. The saving factor for most farm families was greater productivity which had more than doubled for the average farm between 1930 and 1980.

However, some farm families, those who had recently bought farmland at inflated prices, or those who had gone into debt to purchase expensive machinery, or those who were not using the newer technical inputs with their greater productivity, these farm families were encountering substantial income difficulty. Other farm families, with land purchased years earlier at lower prices or with less expensive machinery, or with larger operations over which fixed costs could be spread, were earning incomes equal to or exceeding nonfarm families.

The different income situations presently being experienced in agriculture is not a recent development. There have always been different farm situations. These differences have become more obvious since farm size and organization began to change earlier in this century. New technology in the form of larger and larger machines allowed some farmers to handle more and more acres. Those farmers who were able to take advantage of the opportunity to buy these machines, then add more acres of land, and produce more bushels of grain or pounds of cotton, could increase their income.

This same situation exists today. For example, if we examine the costs for producing output on different size farms in 1979, we find that it varied sharply from the smallest to the largest farms. The highest cost to produce a dollar of farm sales was on the smallest farms where farmers averaged a total cost of $2.36 to produce $1 of sales. Most of these families were able to continue farming only because one or more members worked off the farm and earned income from nonfarm sources.

Farm Size by sales	Cost/$ of Sales (1979)	Number of Farms
$200,000 and over	$0.92	75,000
$100,000 to 199,999	$0.81	144,000
$40,000 to 99,999	$0.80	440,000
$20,000 to 39,999	$0.82	326,000
$10,000 to 19,999	$0.91	280,000
$5,000 to 9,999	$1.10	257,000
$2,500 to 4,999	$1.46	250,000
Less than 2,500	$2.36	539,000

However, our largest farms were not our lowest cost operations. Costs per dollar of sales, as estimated by USDA, show farm selling over $200,000 of products annually with higher costs than farms selling between $10,000 and $200,000 of products. The explanation for the higher costs on larger farms probably varies. On some farms, it may be due to the amount of hired labor that is required, and the higher wages that are necessary to attract full-time workers. On other farms, it may be a heavier dependence on borrowed capital, higher interest costs because of greater risk, and on some very large farms, even an inability to complete planting and harvesting tasks in a timely fashion which may lower productivity per acre.

These higher costs per dollar of output also influence the net cash receipts of larger farms. For example, a net of 8 cents on each dollar means a net sales return of $16,000 for a farm with $200,000 of sales. By contrast, a net sales return of 20 cents per dollar for a farm selling $100,000 means $20,000 of net cash income. When the comparison is with smaller farms, the results are not as encouraging. A farm selling $40,000 of products and netting only 18 cents per dollar has $7,200 of net receipts.

The weakest economic situation is represented by farms selling below $10,000 of products. These farms have a negative net return on each dollar of sales. Some 1.0 million of our 2.3 million farms fall into this category. Their losses per dollar of sales range from 10 cents to $1.36 on each dollar of product sold. For most, the saving factor is income earned off the farm.

Since one million farms are nearly half of all farms, it would appear that some public action might be justified to raise their returns. In fact, many proposals have been made for accomplishing this goal. For most, parity has been a central feature. The American Agricultural Movement, in 1978 and 1979, had as its goal raising farm prices to 100 percent of parity. If the parity ratio was averaging around 65 percent, this would have meant an increase of about 35 percent in farm prices. 1/

Would this protect the one million farms selling less than $10,000 of products and keep them in operation for the indefinite future?

For some of these farms, the answer is yes. For example, about 250,000 farms sell between $5,000 and $10,000 of commodities and average total production costs that exceed cash receipts by about 10 percent. Raising prices 35 percent would obviously make these farm operations profitable, for the present operators at least.

However, while the immediate effect would be to make farming profitable for these farms, whether it would keep them in production for long is another question. Their increase in receipts would be relatively small compared to larger farms. For example, the average farm selling between $5,000 and $10,000 of products would gain about $3,000 more cash income. This would more than cover his cash losses on current operations.

1/ For a description of the AAM proposals, see Evaluations of Proposals Guaranteeing Full Parity for Farmers in the Marketplace. U.S. House of Representatives, Committee on Agriculture, Committee Print, March 1978.

But an average farm operator selling between $40,000 and $100,000 of products would gain just over $25,000 in increased cash income. Such a farm would have both the incentive and capital to enlarge his operation, gain control over more land and operating resources and increase his sales. He could accomplish this by bidding away rented land from smaller tenant farmers or by buying up land that might come up for sale.

By contrast, the small farm operator who would gain only $3,000 additional income would have a more limited ability to pay higher rents or buy up additional land. Unless limits were placed on what landowners could do with their land, the land market would slowly bring about a shift of land to those gaining the larger amount of income from the 100 percent of parity prices.

In a decade or so, this process would take its toll of farms with small to medium size sales. Whether the process of farm consolidation would be speeded and slowed by such a program is difficult to forecast for certain, but a number of studies completed at Midwestern Land Grant Universities seem to indicate that consolidation would proceed at a more rapid rate.

Thus, the central role often proposed for parity, using it as a means of supporting the overall price level of farm commodities, would seem to have some substantial weaknesses, at least if parity is evaluated in terms of the impact that it would have on the small to medium size family farm.

However, we should note that this result is not specific to the concept of parity. The same outcome would result if costs of production were used as a mechanism to raise farm commodity prices to higher levels. The problem is that higher prices benefit farms differentially, since farms vary in size, by type of commodity produced, by level of management, and in the degree they depend on borrowed capital. These differences ensure that a single price level, at whatever level, will impact more on some farms than on others. If the goal is simply to provide more income for farm families, the benefits of using parity to determine farm price levels may outweigh the secondary effects that may arise from such a program. If the goal is preserving the family farm, then parity prices alone would not appear to be a very useful tool.

Finally, if parity as presently formulated has shortcomings for setting Federal support levels for farm prices, can it be improved? And, is it worth the effort?

The answer would seem to be yes to both questions. Parity, especially the parity ratio, is a useful device for comparing farm and nonfarm prices. It serves as a monthly economic barometer for American agriculture, indicating short term trends in the economic relationships of agriculture and other sectors. Because of this usefulness, it should be preserved.

With this positive assessment of the parity concept, what changes would be useful to improve it acceptability as a tool in farm policymaking? One could outline many different ideas for improvement. Criticisms of the concept have been widespread. When the price of some specific farm commodity rises and in turn increases the index of prices received by farmers, there

often is strong suggestions for reducing the impact of that item on the parity ratio. Some of these suggestions have a degree of merit. For example, some years ago, feeder calf prices were rising rapidly which raised the parity ratio. Since farmers were buying the feeder calves, there was an argument that this type of rise in the parity ratio did not mean an improving economic situation for farmers. The followup recommendation was that feeder calves prices should be made less important in calculations to derive the parity ratio. Long before any changes could be made, the price of feeder calves had stopped increasing.

While the merits of this type of change can be argued both ways, there is a more fundamental aspect of the parity concept that would seem to deserve improvement: That aspect is the continued relating of present-day farm prices back to those in the 1910-14 period. Using a base period that is nearly three-quarters of a century old does little to inspire credibility in the concept of parity. If the intervening years had been stable with little change in farming, that would be one matter. But with a total revolution in farm numbers, sizes, production inputs, and marketing methods, it would seem reasonable that a more recent base period should be chosen for the parity ratio.

Since the Department of Agriculture already calculates and publishes the necessary price indexes using the base year 1967, it would seem that shifting the official parity ratio and parity price calculations to that base year would be useful. This would allow comparison of present day prices with those during a period in which the structure of agriculture was more similar, technological inputs were in large degree the same, and marketing methods were much more alike. While the mathematical calculations would not be all that different, it would give the price indexes and the parity ratio a much greater credibility when it indicated a decline in farm prices relative to nonfarm prices.

Finally, the GAO report recommends that the Secretary of Agriculture develop a comprehensive and systematic framework of evaluating various farm policy options. This recommendation is useful. There is a need to consider the broader relationships of agriculture to other important components of the national and international economy.

This has always been one of the stronger points of the parity concept. It related farm prices to nonfarm prices. It provided a means of establishing that a commodity price was depressed beyond simply its absolute value. When it was also low relative to prices in other sectors, that was an important concern.

Developing a framework that would measure these broader relationships would be a useful idea. It could include impacts on farm commodity prices; farm input prices including land, labor and machinery; processing margins and costs; retail food prices; and export and import considerations. There are probably other factors that would need to be included, but this would be a useful first step.

PREPARED STATEMENT OF CALVIN ALLISON, JR., CAMERON, TEX.

An Analysis of GAO Parity Report

Parity is an overall concept that takes place in each sector of the economy. If carried out step by step through each sector, it does form its own conceptual framework. However, if an analysis is done that involves only one sector, as in any mathematical formula unfinished,the answer is incomplete. Table3, page 14, is an example of this. Though farm income has increased dramatically, how does that increase compare in ratio to other segments of the economy, such as salary and compensation to employees,etc.? True parity must be had throughout each sector of our economy to be a meaningful concept.

As discussed in pages 16 through 18, many factors must be considered to determine the true well-being of the farm sector. The parity ratio tracks farm income and per unit production margin. Through increased productivity, net farm has risen, though the parity ratio has declined. But increased productivity, has at various times, created surpluses. In my research, I have found that real surpluses have been created, not through over-production, but through over-import of cheap agricultural commodities at the expense, not only of American farmers, but the world agricultural community. After checking import-export data, it is reasonable to assume that cheap farm price is the effect and not the cause of surplus, and that surplus is caused, in fact, by inadequate tariff legislation. It is reasonable to assume, also, that a rise in farm income does not necessarily mean more "real" income. Once again, to find, the true economic value of the increase, it must be compared to other sectors. In other words, a 30% net increase in income to one sector cannot be a feasible increase, if another sector has had a 130% increase. Parity must be an integral part of the economy as a whole.

Chapter 3 of this report touches on the frightening possibilities of continuation of current trends in agriculture. This chapter clearly states that policy changes are mandated by the frightening aspects of the farm sector's inability to cope with rising production costs and lessening per unit margins of profit. Family farms are absolutely necessary for continued stability of world food supplies, to insure proper soil conservation, and a viable rural community structure. The small farmer has, for an extended period of time, been entrapped in a cost-price squeeze. The effects of this are

illustrated by the out-migration of small farmers in an alarming number for many years. It is also illustrated by the lack of new entry farmers. The reason for the lack of new people entering farming is vividly exemplified on pages27 and 28 of this report. To combat these events, we must restore an equitable amount of profitability to farm production in comparison to the profitability of other sectors of our economy. The incentive must be put on profit for "production", not capital gains from land appreciation. We must maintain and add to our farm producers. Those speculators buying land for capital gains add nothing to agricultural production. For this reason, emphasis must be put on more feasible net profit figures for farmers.

This report brings to light many relevant facts. Parity tracks farm well-being. There is a direct relationship between parity ratio and decrease in farm population. Parity of farm prices alone may not be a good indicator of overall farm program alternatives. But, Comparisons of parity ratios of one sector to another of our economy does give a true picture of the well-being of those sectors. An analysis of parity as a complete economic concept shows the total interrelationship of each economic sector and the interdependence of the whole. When viewed in this manner, one has only to analyze the figures to reach the conclusion that parity is the proper methodology to once again obtain economic solvency for our nation. At the very least it must be viewed as the point of origin. The key is that it must be an inherent part of each sector.

I would ask that Congress view this report as a significant factor in deciding future farm policy. The GAO has done a commendable job of showing some of the importance of parity as an indicator of farm viability. However, I would also,in view of some of the statements made in this report, ask that our learned representatives consider further studies of parity as a complete economic concept, a yardstick for measuring not only the farm sector, but as a comparative basis for measuring the viability of each sector, as well as overall economic vitality.

Bank of Hartington . Hartington, Nebraska . 68739

November 14th, 1980

Honorable Richard Nolan, M.C.
Chairman, Subcommittee on Family Farms,
Rural Development and Special Studies,
Committee on Agriculture,
Room 1301,
Longworth House Office Building,
Washington, D.C. 20515

Dear Congressman Nolan:

We have reviewed the report of the Comptroller General of the United States on "An Assessment of parity as a tool for the formulating and evaluating Agricultural Policy."

We are quite disappointed that the Comptroller General did not follow the farm dollar through the economy and thus evaluate the important multiplier effect in the total economy, and its vital supportative effect of economic growth and the stability of the dollar. This is a long neglected area of exploration and research which will have to be re-discovered before the real merits of parity can be properly evaluated.

An example of our disappointment is the continuing misunderstanding, if not misrepresentation of the facts in attempting to illustrate in Table 3 that there has been a rise in "per family" farm income in spite of a declining parity ratio. The example fails to illustrate the very significant fact that the number of farm families have declined at the rate of 2000 per week since 1950. It is a case of dividing a smaller pie between fewer pie eaters, and the apparent increase in the size of each piece of pie is entirely due to the number of pie eaters declining more rapidly than the size of the pie has diminished.

It fails to show, for instance, the real facts that show agriculture's relative share of National Income has declined 76.4% since 1947-49 during a period in which total National Income has increased nearly 10 times, from an average of $213.1 billion from 1947-49, to $1,924.2 billion in 1979. This example of the real facts of the relative participation of agriculture in the total economy illustrates what a disgraceful distortion of the facts Table 3 is, and the kind of dis-honest analysis that has brought the United States to the brink of economic disaster during the period from 1950 to 1979.

MEMBER FEDERAL RESERVE SYSTEM
MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

#2 Congressman Nolan

It prompts the writer to paraphrase the question that President Elect Reagan asked so dramatically during the campaign, "If existing policy is so good for agriculture, why are economic conditions so bad in agriculture?"

We believe that this is a question that is in the forefront of a majority of thinking Americans' minds. We believe this is the major reason for the unusual, or at least unexpected, substantial defeat of the Carter administration. If this conclusion is credible, then the time has arrived when Congress should be given full opportunity to examine alternative programs for agriculture, and not just the same old programs that have been brought into conformity with pre-concieved and pre-existing norms so as not to disturb long term policy decisions.

We did find many positive suggestions and particularly detailed "proposed conceptual framework for U. S. formulation and evaluation" of the parity concept, table 6, page 47. Herein lies recommendations for the detailed evaluation of parity that will dramatize the alternatives that are available to the United States, and to the world, in pricing all raw materials (70% of which are agricultural) consistantly and precisely at parity with the average cost of all other goods and services in our economic system. This is the only way that we can maintain a stable dollar, and eliminate inflation.

The study is obviously incomplete, and perhaps the mandate from the Congress was not explicit enough, or perhaps the resources too limited but for whatever reason is does not fulfill the recommendations on Table 6, page 47, it fails to serve the Congress because of this failure. If the Congress in unable to make informed decisions, then we would anticipate further drift in farm policy changes that are essential to the maintenance of a viable national economy.

Hamilton Boulton, founder of Bank Credit Analyst, the most highly esteemed bank analyst in the business, presented a study that shows what is happening with bank credit and Gross National Product (GNP). His analysis shows that during 1949-53, (when parity was 100%) it required a 17 cent increase in bank credit to produce a rise of $1.00 in GNP. A multiplier effect of a little more than 5 times the credit input. During 1958-60 (following the inception of "sliding scale farm price supports") it took 23 cents of additional bank credit to produce an additional $1.00 of GNP. During 1960-65 it took 46 cents in bank credit to produce $1.00 of additional GNP. By 1966-68 it took $1.03 to produce $1.00 of GNP. During 1975-78 it has taken $1.38 to produce $1.00 in GNP. And during the March 1978 to March 1979 period it has taken $1.88 of bank credit to produce an additional $1.00 in GNP. In other words, it is taking more and more credit to produce less and less GNP. This ominous trend has not only been highly inflationary, it precludes the use of credit expansion as an economic stimulus, by whatever means it is injected.

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#3 Congressman Nolan

By the same token, this negative return on injected credit completely precludes the benefits percieved by a remarkable number of competent people from a 'federal tax credit'. A federal tax credit will result in an increased 'federal deficit' which in turn will require the injection of credit/debt in sufficient quantity to balance the federal deficit. At the 1978-1979 rate of negative return on bank credit, or any other kind of debt injection, it will increase public and private debt at twice it generates GNP. Certainly it is a losing battle in which we increase claims on future income (debt repayment and interest) at twice the rate that we will increase GNP on a current basis.

On the other hand, a federal tax cut accompanied by an offsetting reduction in federal spending will likely result in increased unemployment of federal employees, a decline in personal spendable income, a loss of market for goods and services which is likely to exacerbate stagflation, and result in a rising inflation and an intensifying recession.

In contrast to these two widely advocated proposals, reflating depressed farm raw material prices to 100% of parity would appear to be a highly acceptable alternative, even it it does increase the price of food and clothing at retail very modestly, because it is totally self-liquidating. An invaluable by-product will be a reduction in inflation and the stabilization of the purchasing power of the dollar. Why? Because the negative result of debt injection is complely avoided.

It is now becoming very apparent that the illiquidity of the total economy, as is evidenced by the unprecedented all time high levels of loans and investments in ratio to deposits in the commercial banking system, has increased the demand for money and increased interest rates to record high levels. The estimated total cost of increased interest payments, coupled with the increased cost of energy, during the years 1979 and 1980 is $394 billion more than it was in 1978. This sum is almost equal to the total cost of all food and fibre consumed in the United States at retail, In 1979. This distortion in our economy is the primary source of the growing negative return on credit injection which began to emerge 3 decades ago with the inception of 'sliding scale farm price supports' at something under 90% of parity. A public and private debt struture in the United States estimated at $5.4 trillion dollars is stark evidence of our neglegence and our ignorance. It was made necessary by an estimated $977.4 billion underpayment to the agricultural economy since 1952. A figure that will exceed $1 trillion by the end of 1980. A tragic error of judgement which has placed a claim on the income of the next 3 generations - ours, our children and our children's children. Or, it will destroy the capital investment of our nation as debt is abrogated by the government, and lost in business failure and bankruptcy in economic depression.

#4 Congressman Nolan

It is totally illogical in the face of history to believe that parity of prices on farm raw materials can be ignored, on the one hand, or manipulated so that it favors one segment of the population over another, on the other hand. Whether one makes a sincere study of the 1942 to 1952 period of history during which the 90% of parity price floor resulted in an average of 100% of parity for agriculture for 10 years, or whether you look at more current statstics which speak to the deplorable financial circumstances that prevail in this vital and very large sector of financial investment in our overall economy.

For example, the following information was gleaned from the USDA publication, Agricultural and Financial Outlook, November 1979, and other authoritative sources.

From January 1, 1977 to January 1, 1980, various types of credit/debt was injected into the agricultural economy from various sources.

The increase in non-real estate farm debt from January 1, 1977 to January 1, 1980 were provided by the following lenders:

Farmers Home Administration	$8.023 billion
Small Business Administration*	$4.420 billion
Commodity Credit Corporation	$3.488 billion
Total from Government sources	$15.931 billion
All commercial banks	$7.117 billion
Production Credit Associations	$5.347 billion
Total credit from traditional lenders	$12.464 billion
Grand Total non-real estate debt	$28.375 billion

*Includes loans from individuals $180 million

In addition to this non-real estate credit the agricultural economy borrowed other monies on real estate collateral during the 1977-80 period ttotaling:

Real Estate Debt 1-1-77 to 1-1-80	$26.563 billion
Grand total of all debt incurred	$54.985 billion

This averages out to about $10,800. borrowed by every one of the approximately 1.7 million farm operators, every year, just to stay in business. 56%of the total non-realestate operating money was obtained from Government lenders.

#5 Congressman Nolan

The Farmers Home Administration's contribution of $8.023 billion during this three year period was equal to 48% of all of the money that the Farmers Home Administration has loaned to farmers in its history. In just 3 years the loans made by the FmHA was equal to nearly 100% of the amount of all funds previously loaned to farmers since the 1930s.

On the other hand, the banks and PCAs loaned only 44% of the non-real estate credit advanced to farmers in this three year period, which is about half the normal volumn of non-real estate credit normaly advanced to farmers by these traditional lenders.

The fact is that much of the money loaned by the Government was used to liquidate debts to the traditional lenders, and account for a substantial part of the prevailing liquidity in these institutions on this date.

The plain truth is that the agricultural economy is failing to generate the income and profits essential to the sustained expansion in the agricultural economy where 40% of the population either resides and makes its living, or are directly involved in the manufactur, transportation and distribution of farm originated production. This loss to the rural economy has a very definite impact, because of its size alone, on every other sector of the economy.

However, the tragedy lies in the fact that while the absence of programs which will tend to cause the farm economy to prosper, is a fear that "large farmers" will reap the main benefits, while it is the smaller family farmer who needs the assistance, is a totally false premise and one that Congress is hooked on. It takes small farmers to become big farmers, and if small farmers are kept poor to curtail the expansion of big farmers, the net result is to eliminate farm families. The farm policies in effect since 1952 have had just this exact effect, and the erosion of farm families goes on and on. The facts are that 90% of the aforementioned $54.985 billion dollars of debt incurred by agriculture in the three years from January 1, 1977 to January 1, 1978, was incurred by an estimated 34% of the farm operators - the co-called large farmer.

Now, instead of each of 1.7 million farmers going into debt $10,800.00 each of these three years, the fact is that 578,000 large farmers borrowed more than $85,000.00 each of these three years, in order to survive. This is in addition of the Realized net farm income received by each 'large farm' operator.

So to provide society with an ample supply of food and fibre at reasonable prices, the agricultural economy, both large and small farmers obligated $54 985 billion of farm personal property and real estate assets, and exhausted their gross and net farm income, in the three most recent years in which records are available. Just how much more does Congress think the farm economy can tolerate in economic abuse, locked into Government farm policy, before the viability of the farm economy is destroyed?

#6 Congressman Nolan

We thank you for the opportunity to help your committee explore the potentials of 100% of parity farm prices, and compliment you and your committee for coming very close to the truth in initiating and nurturing the lengthy study of parity by the G.A.O. We encourage you to go forward with further study in the full context of the recommendations suggested in Table 6 Page 47.

Kind regards,

Sincerely,

T. E. Rossiter, Sr.,
Vice President,
National Organization for
Raw Materials.

PREPARED STATEMENT OF DON DEICHMAN, AAM OF MISSOURI, WASHINGTON, D.C.

Nov. 17, 1980

Dear Congressman Ellen:

Please include the following in your sub-committee's final report on the GAO Parity Study: (It is what I wrote for the American Agriculture Movement Washington Newsletter of Oct. 31, 1980.)

Long-Awaited Parity Study:

Bad Conclusions From Good

Context Raises New Suspicions

A report on the parity study that we'd all been looking forward to so hopefully comes to disappointing conclusions, but careful reading of the report makes one wonder if the conclusions were drawn from someplace else! The conclusion states that parity "does not reflect total farm sector well-being." But a paragraph on page 16 is very telling: "What USDA called 'real net farm income'...was actually total personal income of the farm population which includes off-farm income. Our data (see chart 2), which includes income only from marketing receipts adjusted to 1967 dollars, shows that the parity ratio has tracked net income from farming. This has occurred even though productivity has improved."

It is apparent that whoever wrote the conclusions of the report felt that the validity of the parity concept is damaged by the fact that "total farm sector well-being" is increased by off-farm income! (Elsewhere they even note that, according to USDA, parity doesn't take into account federal support programs!) How could they ignore the study's statement that its data shows the parity ratio has "tracked" net income from farming? And the report's observation that such tracking has occurred "even though" productivity has improved blows the argument so many economists have against parity.

We are concerned that opponents of parity just may have it up their sleeves now to fiddle with the parity formula so as to include whatever would increase "farm sector well-being" right in the formula. If they'd accomplish that, they would totally wreck "parity" as a measure of fairness of the profitability of farming and ranching.

To this I would just add that those who think parity prices would help large farmers as opposed to small should note that more small farmers go out of business during times of low prices than during times of higher prices. There is some ample truth in the observation that it all encourages bigger to consider.

Finally, I am hopeful that various sectors of our economy could join farmers themselves and ranchers in appreciating the wisdom of yourself and other of your sub-committee in preserving the concept of parity.

Sincerely,
Don Deichman
Don Deichman

Washington Liaison for American Agriculture Movement & Missouri
AAM, Suite 500A, 100 Maryland Ave. NE, Washington, D.C. 20002

FACT SHEETS ON PARITY AND FARM INCOME SITUATION
Submitted for the hearing record on GAO's parity report
by Ernest and Jean Wilson, Uniondale, Indiana

ERNEST AND JEAN WILSON
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TEL. 219 - 563-2385

U. S. Congressional Committee on Agriculture
Washington D. C.
Thomas Foley, Chairman
February 14, 1979

Projected yields, prices, income at 100% Parity
Circle W Farms 862 Acres Gross
800 Acres Cropland

375 Acres corn X 90 bu. dry corn ave. 33,750 bu. X $3.45 per bu. parity	$116,437.00
375 Acres soybeans X 40 bu. ave. per acre 15,000 bu. X $7.60 per bu. parity	$114,000.00
150 Acres wheat X 60 bu. per acre ave. 9,000 bu. X $5.00 per bu. parity	$ 45,000.00
Gross sales of grain at 100% parity	$275,437.00
800 Acres cropland X $150.00 cash expenses and depreciation, per acre	$120,000.00
	$155,437.00
Federal, State, and Social Security Taxes	$ 75,000.00
	$ 80,437.00
Under 100% parity would pay $40.00 principal per acre on 862 acres. A period of 10 yrs. to pay mortgage off (per year)	$ 34,480.00
	$ 45,957.00

(Now paying 8.25% interest per acre on land debt — approx. $40.00 per acre — plus the minimum principal of $10.00 per acre)

We should receive now — My full management and labor of 50 wks. per yr X 6 days X 14 hrs. per day 4,200 hrs at $10.00	$ 42,000.00
My wife's labor and part management of 50 wks. X 40 hrs. per wk — 2,000 hrs. X $5.00	$ 10,000.00
	$ 52,000.00

4,200 hrs. X 37 yrs. farming ---------- 155,400 hrs.
2,000 hrs. X 23 yrs. farming ---------- 46,000 hrs.
201,400 total

Tile and machinery investment totals...$185,000.00 divided by 201,400 hrs. equals $.91 per hour to pay for these investments. We had a good family living above this.

The average today appraised value of the 862 acres is $ 1,500 per acre

$1,293,000
7% on investment

$ 90,510

The market place prices should be high and stable enough to earn this. The price for all raw products would have to be sold at 125% parity to obtain this 7% on investment and the labor above as listed.

Sincerely
Ernest N. Wilson, full time farmer

Ernest N. Wilson
Public Relations

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U. S. Congressional Committee on Agriculture
Washington D. C.
Thomas Foley, Chairman
February 14, 1979

THE ISSUE

THE $ COST TO EACH CONSUMER PER CAPITA, PERTAINING
TO ALL FARMER NET FOR YEARS 1974 - 1975 - 1976

(1) 220,000,000 consumers approx. in nation.

(2) $22,000,000,000 net profit for all raw products to all farmers.

(3) $22,000,000,000 divided by 220,000,000 consumers = $100.00

(4) 20% of this farmers net is obtained by export sales.

(5) 20% of $100.00 = $20.00. Leaving $80.00 cost per consumer per year. 22 cents per day.

(6) $75,000,000,000 spent by all farmers per year to produce all raw products. This is spent to non-farmers and agri-businesses.

(7) Labor is chief ingredient in the $75,000,000,000. 60% gross net on the above = $45,000,000,000.

(8) $45,000,000,000 – $22,000,000,000 = + $23,000,000,000 for consumers.

(9) 75% parity increased to 100% is a 33 1/3% increased net profits.

(10) 33 1/3% increased sales on $97,000,000,000 (Item 2 + 7) = $33,000,000,000 net.

(11) 20% from export sales of $33,000,000,000 = $6,600,000,000.

(12) 80% consumers share of $33,000,000,000 = $26,400,000,000.

(13) $26,400,000,000 divided by 220,000,000 consumers = $120.00 per capita cost or 33 cents per day.

(14) $22,000,000,000 net divided by 2,000,000 farm families = $11,000.00 before taxes.

(15) $33,000,000,000 additional net divided by 2,000,000 farm families = $16,500.00 before taxes.

(16) The $27,500 (Item 14 + 15) before taxes will buy **what replacements ? ? ?**

(17) The **day** the consumers know the above facts in $'s, I'm confident they will call their congressmen with their understanding support of 100% parity by Law.

Ernest N. Wilson Part Time farmer.

Sincerely

Ernest N. Wilson
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U. S. Congressional Committee on Agriculture
Washington D. C.
Thomas Foley, Chairman
February 14, 1979

ESTIMATED CURRENT TRUE PARITY PRICES

Wheat	$11.00 per bushel
Corn	7.50 per bushel
Soybeans	17.00 per bushel

Projected income in 1979 from 600 acres of cropland across the cornbelt.
Owner-Operator.

"Wheat" 200 acres times 50 bu. per acre equals 10,000 bu. times $11.00 per bu. equals gross income	$110,000
"Corn" 200 acres times 100 bu. per acre dry corn equals 20,000 bu. at $7.50 per bu. dry corn equals gross income	150,000
"Soybeans" 200 acres times 40 bu. per acre equals 8,000 bu. at $17.00	126,000
	$386,000
Cash expenses of all variable costs and depreciation of equipment at 12% per year equals $190.00 per acre times 600 acres	$114,000
	$272,000
Federal, State, and Social Security taxes for family farm (of 4)	$165,000
	$107,000
Investment in Land and Equipment $1,500,000 times 7% return	$105,000
Net on sales and management	$ 2,000

Projected income in 1979 from 600 acres of cropland across the cornbelt.
Tenant Cash Rent.

Gross Income	$386,000
All variable costs and depreciation at 12% per year. $190 per acre times 600 acres	114,000
	$272,000
Total cash rent of 600 acres times $150 per acre	90,000
	$182,000
Estimated Federal, State and Social Security Taxes	98,000
	$ 84,000
Family of 4 living cost per year	11,000
Return on tenant investment for management Total net	$ 73,000

Left to start a cumulating fund to buy farm land and home.

The land lord of this 600 acres cropland farm had invested:

$2,000 per acre times 600 acres	$1,200,000
Cash rent income 600 acres times $150 per acre	90,000
Estimated Federal, State and Social Security	38,000
On investment Net profit	$ 51,500

$51,500 is 4.3% net return on $1,200,000 investment

Ernest N. Wilson — full time farmer.
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U. S. Congressional Committee on Agriculture
Washington D. C.
Thomas Foley, Chairman
February 14, 1979

FAMILY FARM

$140 Billion total Farm Debt (reported by USDA ending 1978)

$140 Billion divided by 2,000,000 farm families equals $70,000 per family.

$28 Billion USDA reported net income from all farm sales in fiscal 1978 divided by 2,000,000 farm families* equals $14,000 per farm family* before taxes.

$14,000 per farm family* before taxes
2,450 approximately for Federal, State and Social Security Taxes

$11,550 net after taxes
8,550 estimated average farm family* living expenses

$ 3,000 after living

$70,000 debt per family divided by net of $3,000 per farm equals 23 1/3 years to pay off the present debt.

Does not include interest on debt.

Ernest N. Wilson.

*farm family of 4

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U. S. Congressional Committee on Agriculture
Washington D. C.
Thomas Foley, Chairman
February 14, 1979

Projected yields, prices, income at 125% Parity for crop year 1978

375 Acres corn X 90 bu. dry corn ave. 33,750 bu. X $4.31 per bu. at 125% parity	$145,546.00
375 Acres soybeans X 40 bu. average per acre 15,000 bu. X $9.50 per bu. at 125% parity	$142,250.00
150 Acres wheat X 60 bu. per acre ave. 9,000 bu. X $6.25 per bu. parity	$ 56,250.00
Gross sales at 125% parity	$344,046.00
Expenses and Depreciation	$120,000.00
Gross net	$224,046.00
Federal, State and Social Security Taxes	$130,446.00
Net Profits	$ 93,600.00
Labor for husband and wife	$ 52,000.00
	$ 41,600.00
3% on the Investment	$ 38,790.00
⅛ of 1% profit on business of grain sales	$ 2,810.00

The average today appraised value of the 862 acres is $1,500.00 per acre

$1,293,000.00
3%
$38,790.00

If we now would apply the same yields, price, and compute into income, taxes, labor, etc., on the U. S. A. average sized family farm, as listed above, the 125% parity scale, the attractiveness will not be so encouraging. Average U. S. A. farm approximately 400 acres with many less than the above per acre yields in production.

Sincerely

Ernest N. Wilson.

Ernest N. Wilson
Public Relations

best copy available